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*CORPORATE GOVERNANCE IN NORWAY;
THE DEVELOPMENT OF A BOARD EVALUATION MODEL WITH
SPECIAL EMPHASIS ON LARGE LISTED COMPANIES*

BY

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*A THESIS PRESENTED TO
CASS BUSINESS SCHOOL
IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE
DEGREE
DOCTOR OF PHILOSOPHY
JUNE 2010*

Acknowledgments

First of all, my sincere gratitude goes to my family, and especially my husband who was left with the responsibility of running the family alone for long periods. I could never have done this without your support Michael! And my gratitude of course to our three small children for being supportive despite the fact that they have missed out on a lot of time together with their mother for the last three and a half years.

My sincere gratitude also goes to my supervisors for their ability to see **me** in the PhD process. They allowed me to develop as a researcher on my own terms. I am forever grateful for your faith in me as a researcher although I doubted myself at times. Georges, your ability to structure things is fantastic, and I try to use what I learned from you every day. Jenny, your ability to see things from different angles is amazing. Thank you for your contributions!

I would also like to thank my employer, the Norwegian School of Management (BI) for giving me the opportunity to do this. Some colleagues have been more involved in the process than others, and I want you to know you all mean the world to me. I have the best colleagues in the world. They believe in me and support me. Who could ask for more?

Abstract

Boards are increasingly viewed as an important asset for the organization, with the potential to contribute to a sustainable competitive advantage (Huse, 2007d; Minichilli, Gabrielsson, & Huse, 2007a). There has been increased demand and pressure on boards regarding accountability issues and member liability during the last decade (Minichilli, et al., 2007a). These demands have been materialized in the developed Codes for Practice of Corporate Governance, internationally and nationally. One of the recommended actions in these Codes is that boards should perform an evaluation of their work.

The fact that board evaluations are recommended by many Codes of Corporate Governance indicates that they are considered an important corporate governance mechanism useful for assessing and enhancing board effectiveness, perhaps especially because of their possibility to assess actual tasks against expected tasks. Although the Norwegian Code for Practice of Corporate Governance recommends that board evaluations are conducted, it is left to the companies themselves to decide the different elements of the process. No research has yet been done to increase our knowledge about how board evaluations have been implemented by Norwegian listed companies. Thus, it is not possible to establish to what extent board evaluations contribute to enhanced corporate governance in a Norwegian context.

The thesis looks into board evaluation as a corporate governance mechanism. Multiple case studies (9 large listed Norwegian companies representing about 75 % of the market capitalisation as of 31 December 2007) of the implemented processes of board evaluation were performed. In each case, an average of three board members was interviewed. From this, valuable insight into the approaches adopted by Norwegian companies and factors influencing these approaches has been gained and an understanding of board evaluation as a means to increase board effectiveness developed.

The research shows that the process of board evaluation in listed companies may be categorised as a process which lacks structure, communication and involvement. The implemented processes of board evaluation in boards of Norwegian listed companies appear to be based on conformance, not performance, and board evaluations appear to be institutionalized.

The research adds to the concept of board evaluation. Empirical research into the process of board evaluation implemented in boards of Norwegian listed companies has given valuable insight into how board evaluations are performed and their role in a corporate governance context.

Based on the field research, a model of board evaluation was developed which can, if implemented, enhance corporate governance in a Norwegian context.

Contents of the Thesis

CHAPTER 1 INTRODUCTION	1
INTRODUCTION.....	2
1.1 IDENTIFYING THE COMMON GROUND	2
1.1.1 <i>Development of corporate governance</i>	2
1.1.2 <i>The board as a corporate governance mechanism</i>	3
1.1.3 <i>What is corporate governance?</i>	4
1.1.4 <i>The purpose of corporate governance</i>	4
1.1.5 <i>Summary and implication for this research</i>	5
1.2 PURPOSE OF THE STUDY.....	6
1.2.1 <i>Introduction</i>	6
1.2.2 <i>The concept of board evaluation in corporate governance</i>	7
1.3 RESEARCH APPROACH, METHODOLOGY AND PROPOSITIONS	8
1.3.1 <i>Research approach and methodology</i>	8
1.3.2 <i>Research propositions</i>	9
1.3.3 <i>Potential contribution</i>	10
1.4 LIMITATIONS OF THE RESEARCH	10
1.4.1 <i>Sampling</i>	11
1.4.2 <i>Board member experience as board members and with board evaluations</i>	11
1.4.3 <i>Method of data collection</i>	12
1.5 THESIS STRUCTURE.....	12
CHAPTER 2 - BOARD EVALUATION; LITERATURE REVIEW	13
INTRODUCTION.....	14
2.1 ROLE AND TASKS OF BOARDS.....	14
2.1.1 <i>The control role of the board</i>	15
2.1.2 <i>The strategic role of the board</i>	16
2.1.3 <i>The service role of the board</i>	16
2.2 THEORIES OF CORPORATE GOVERNANCE.....	16
2.2.1 <i>Agency theory</i>	17
2.2.1.1 <i>Agency theory; board role and board tasks</i>	17
2.2.2 <i>Stewardship theory</i>	18
2.2.2.1 <i>Stewardship theory; board role and board tasks</i>	18
2.2.3 <i>Stakeholder theory</i>	19
2.2.3.1 <i>Stakeholder theory; board role and board tasks</i>	19
2.2.4 <i>Institutional theory</i>	19
2.2.4.1 <i>Institutional theory; board role and board tasks</i>	20

2.2.5	<i>Resource dependency theory</i>	20
2.2.5.1	Resource dependency theory; board role and board tasks	21
2.2.6	<i>Managerial hegemony theory</i>	21
2.2.6.1	Managerial hegemony theory; board role and board tasks	22
2.2.7	<i>Class hegemony theory</i>	22
2.2.7.1	Class hegemony theory; board role and board tasks	22
2.2.8	<i>The legalistic perspective</i>	22
2.2.8.1	The legalistic perspective; board role and board tasks.....	23
2.2.9	<i>The contingency aspect of corporate governance</i>	23
2.2.10	<i>Summary of the theories and implications for the research</i>	23
2.3	INTRODUCTION TO BEHAVIOURAL THEORIES	25
2.4	THE CONCEPT OF BOARD EFFECTIVENESS	27
2.4.1	<i>Board accountability</i>	28
2.4.1.1	Accountability at board level.....	28
2.4.2	<i>Individual accountability</i>	29
2.4.3	<i>Transparency as part of accountability</i>	29
2.4.4	<i>Accountability and board effectiveness</i>	29
2.5	BOARD EFFECTIVENESS – PREVIOUS RESEARCH AND MODELS USED	30
2.5.1	<i>Summary and implication for this research</i>	33
2.6	MODEL TO ASSESS THE ABILITY FOR BOARD EVALUATIONS TO CONTRIBUTE TO BOARD EFFECTIVENESS	33
2.7	BOARD EVALUATIONS; DEFINITION AND RATIONALE FOR THEM.	35
2.7.1	<i>Definition of board evaluations</i>	35
2.7.2	<i>Rationale behind board evaluations, general perspectives</i>	36
2.7.3	<i>Rationale behind board evaluations – in a corporate governance context</i> . ..	36
2.7.4	<i>Benefit of board evaluations</i>	37
2.7.4.1	Benefit for external stakeholders.....	38
2.7.4.2	Benefit for the boards.....	38
2.7.5	<i>Resistance towards board evaluations</i>	38
2.8	THE PROCESS OF BOARD EVALUATION.....	39
2.8.1	<i>Purpose of the board evaluation – “WHY”</i>	40
2.8.2	<i>Intended recipients of the board evaluation – “FOR WHOM”</i>	41
2.8.3	<i>Object of the evaluation</i>	42
2.8.4	<i>The content of the evaluation “WHAT”</i>	44
2.8.5	<i>The Evaluator – “WHO”</i>	47
2.8.6	<i>Modality used “HOW”</i>	48
2.8.7	<i>Timing of the evaluation “WHEN”</i>	51
2.8.8	<i>Follow-up of the evaluation</i>	52
2.9	GOVERNANCE OF NORWEGIAN COMPANIES	52
2.10	SUMMARY, CONCLUSIONS AND RESEARCH PROPOSITIONS	55
2.10.1	<i>Summary</i>	55
2.10.2	<i>Conclusion/research gap</i>	58

CHAPTER 3 - METHODOLOGY	61
INTRODUCTION.....	62
3.1 RESEARCH IN A WIDER CONTEXT	62
3.1.1 <i>Models and concepts - paradigms</i>	63
3.1.2 <i>Theory</i>	64
3.1.3 <i>Methods</i>	65
3.1.4 <i>Deciding on a qualitative or quantitative approach</i>	69
3.1.5 <i>Summary of the chosen research process</i>	70
3.2 IMPLEMENTING THE CHOSEN RESEARCH PROCESS	70
3.2.1 <i>Sampling of cases</i>	71
3.2.2 <i>Developing the questionnaire</i>	75
3.2.3 <i>Analyzing the data</i>	76
3.3 THE RESEARCH PROJECT IN CONTEXT	77
3.3.1 <i>Shareholding and shareholders</i>	77
3.4 SUMMARY AND RESEARCH IMPLICATIONS	80
CHAPTER 4 - ANALYSIS OF THE INTERVIEWS (1) - INDIVIDUAL COMPANIES AND INTERVIEWEES AGGREGATED ANALYSES	82
4.1 STRUCTURE AND PRESENTATION OF ANALYSIS.....	83
4.2 COMPANY S1	86
4.2.1 <i>About the company</i>	86
4.2.2 <i>Gap analysis of interviewees' perceived models of board evaluation S1 ...</i>	86
4.2.3 <i>Preferred model</i>	92
4.2.4 <i>Summary</i>	92
4.3 COMPANY S2.....	96
4.3.1 <i>About the company</i>	96
4.3.2 <i>Gap analysis of interviewees' perceived models of board evaluation S2 ...</i>	96
4.3.3 <i>Preferred model of board evaluation</i>	103
4.3.4 <i>Summary</i>	103
4.4 COMPANY S3.....	107
4.4.1 <i>About the company</i>	107
4.4.2 <i>Gap analysis of interviewees' perceived models of board evaluation in S3</i>	107
4.4.3 <i>Preferred model of board evaluation</i>	114
4.4.4 <i>Summary</i>	114
4.5 COMPANY S4.....	118
4.5.1 <i>About the company</i>	118
4.5.2 <i>Gap analysis of interviewees' perceived models of board evaluation S4 .</i>	118
4.5.3 <i>Preferred model</i>	126
4.5.4 <i>Summary</i>	126

4.6 COMPANY S5.....	130
4.6.1 <i>About the company</i>	130
4.6.2 <i>Gap analysis of interviewees' perceived models of board evaluation</i>	130
4.6.3 <i>Preferred model of board evaluation</i>	135
4.6.4 <i>Summary</i>	136
4.7 COMPANY S6.....	140
4.7.1 <i>About the company</i>	140
4.7.2 <i>Gap analysis of interviewees' perceived models of board evaluation</i>	140
4.7.3 <i>Preferred model of board evaluation</i>	145
4.7.4 <i>Summary</i>	145
4.8 COMPANY S7.....	149
4.8.1 <i>About the company</i>	149
4.8.2 <i>Gap analysis of interviewees' perceived models of board evaluation</i>	149
4.8.3 <i>Preferred model of board evaluation</i>	154
4.8.4 <i>Summary</i>	155
4.9 COMPANY S8.....	159
4.9.1 <i>About the company</i>	159
4.9.2 <i>Gap analysis of interviewees' perceived models of board evaluation</i>	159
4.9.3 <i>Preferred model</i>	164
4.9.4 <i>Summary of the findings</i>	164
4.10 COMPANY S9.....	168
4.10.1 <i>About the company</i>	168
4.10.2 <i>Gap analysis of interviewees' perceived models of board evaluation</i> ..	168
4.10.3 <i>Preferred Model</i>	175
4.10.4 <i>Summary</i>	176
4.11 SUMMARY OF ANALYSIS PERFORMED ON INDIVIDUAL COMPANIES AND INTRODUCTION TO AGGREGATED ANALYSIS.....	180
4.12 GAP ANALYSIS ACROSS COMPANIES – INDIVIDUAL BOARD MEMBERS	181
4.12.1 <i>Introduction</i>	181
4.13 AGGREGATED GAP ANALYSIS – COMPANY LEVEL.....	185
4.13.1 <i>Introduction</i>	185
4.13.2 <i>Gap analysis of interviewees' perceived models of board evaluation across companies</i>	185
4.13.3 <i>Summary of the aggregated gap analysis company level</i>	195

CHAPTER 5 - ANALYSIS OF THE INTERVIEWS (2) - AGGREGATED ANALYSIS OF PERCEIVED ACTUAL AND PREFERRED MODELS OF BOARD EVALUATION AND DEVELOPMENT OF A SUGGESTED MODEL	196
5.1 INTRODUCTION.....	197
5.2 MODELS OF BOARD EVALUATION	198
5.2.1 <i>The perceived actual model of board evaluation</i>	<i>198</i>
5.2.1.2 Approaches influencing the perceived actual model of board evaluation	202
5.2.2 <i>Preferred model of board evaluation.....</i>	<i>208</i>
5.2.3 <i>The theoretical model.....</i>	<i>210</i>
5.2.4 <i>Summary of the board evaluation model, and introduction to developing a suggested model for board evaluation in Norwegian listed companies</i>	<i>212</i>
5.3 BOARD EVALUATIONS AS A MECHANISM FOR INCREASING BOARD EFFECTIVENESS	213
5.3.1 <i>Gap analysis.....</i>	<i>213</i>
5.4 BOARD EVALUATIONS AS A MEANS OF INCREASING EXTERNAL ACCOUNTABILITY	216
5.4.1 <i>Gap analysis.....</i>	<i>216</i>
5.4.2 <i>Summary and conclusion of gap analysis.....</i>	<i>218</i>
5.5 SUGGESTED MODEL OF BOARD EVALUATION IN LISTED NORWEGIAN COMPANIES.	219
5.5.1 <i>Board evaluations as a mechanism to increase board effectiveness</i>	<i>220</i>
5.5.2 <i>Board evaluation in a corporate governance context – input to the Norwegian Code for Practice of Corporate Governance</i>	<i>226</i>
5.6 SUMMARY	227
CHAPTER 6 - ANALYSIS OF FOCUS GROUP - DISCUSSIONS AND IMPLICATIONS FOR DEVELOPED MODEL OF BOARD EVALUATION	228
6.1 INTRODUCTION.....	229
6.2 PREPARING FOR THE FOCUS GROUP.....	229
6.2.1 <i>Selecting participants</i>	<i>229</i>
6.3 CONDUCTING THE FOCUS GROUP	232
6.4 ANALYSING THE RESULT	234
6.4.1 <i>Introduction.....</i>	<i>234</i>
6.4.2 <i>Topic A - The board evaluation process</i>	<i>234</i>
6.4.3 <i>Suggestions made regarding the board evaluation process.....</i>	<i>237</i>
6.4.4 <i>Recommendations regarding the Norwegian Code for Practice of Corporate Governance.....</i>	<i>239</i>
6.4.5 <i>Summary of the focus group</i>	<i>242</i>
6.4.6 <i>Overall conclusions and implications for the suggested model of board evaluation</i>	<i>244</i>

CHAPTER 7 - SUMMARY AND CONCLUSION.....	245
7.1 INTRODUCTION.....	246
7.2 SUMMARY OF THE RESEARCH PROCESS.....	246
7.3 THE RESULT.....	251
7.3.1 <i>The board evaluation process</i>	251
7.3.2 <i>The suggested model of board evaluation for Norwegian listed companies</i>	254
7.3.2.1 Input to increase board effectiveness through board evaluations:.....	254
7.3.2.2 Input to the Norwegian Code for Practice of Corporate Governance:.....	256
7.4 AREAS FOR FUTURE RESEARCH.....	257
REFERENCES.....	258
APPENDICES.....	266
APPENDIX 3.1 LETTER TO SAMPLED COMPANIES	267
APPENDIX 3.2 AID MEMOIRE	268
APPENDIX 3.3 INFORMATION SENT OUT TO INTERVIEWEES.....	272
APPENDIX 3.4 CODING SUMMARY.....	273
APPENDIX 6.1 LETTER SENT TO PARTICIPANTS OF FOCUS GROUP	277
APPENDIX 6.2 INFORMATION ABOUT THE STUDY.....	279
APPENDIX 6.3 PROGRAM FOCUS GROUP	282

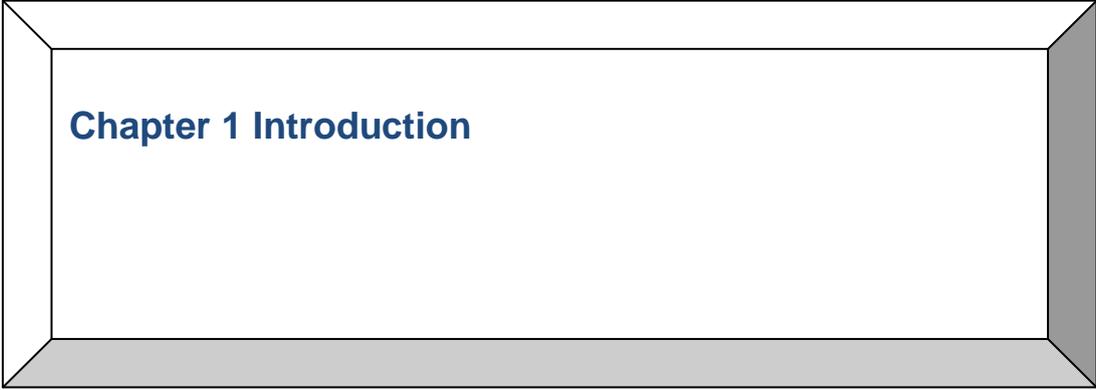
List of tables

Table 2.2.1	Categorization of boards' main roles according to corporate governance theories.....	24
Table 2.7.1	Definition of board evaluation.....	36
Table 3.2.1	Sample frame by industrial sector.....	71
Table 3.2.2	Overview of sampled companies compared to sample frame.....	73
Table 3.2.3	Comparison sampled companies to listed companies Oslo Stock exchange.....	74
Table 3.3.1	Largest domestic companies on Oslo Stock Exchange by market value.....	78
Table 3.3.2	Shareholder structure Oslo Stock Exchange at year end % of market value.....	79
Table 4.1.1	Structure of analysis.....	84
Table 4.2.1	Summary of gaps between the interviewees' perceived models of board evaluation in S1.....	94
Table 4.2.2	Gap between perceived and preferred models of board evaluation S1.....	95
Table 4.2.3	Perceived actual model of board evaluation in S1.....	96
Table 4.3.1	Summary of gaps between interviewees' perceived models of board evaluation in S2	105
Table 4.3.2	Gaps between perceived and preferred models of board evaluation in S2.....	106
Table 4.3.3	Perceived actual model of board evaluation in S2.....	107
Table 4.4.1	Summary of gaps between interviewees' perceived models of board evaluation in S3.....	116
Table 4.4.2	Summary of gaps between interviewees perceived and preferred models of board evaluation in S3.....	117
Table 4.4.3	Perceived actual model of board evaluation in S3.....	118
Table 4.5.1	Summary of gaps between interviewees' perceived models of board evaluation in S4.....	129
Table 4.5.2	Gaps between interviewees' perceived and preferred models of board evaluation in S4.....	130
Table 4.5.3	Perceived actual model of board evaluation in S4.....	131
Table 4.6.1	Summary of gaps between interviewees' perceived models of board evaluation in S5.....	139
Table 4.6.2	Gap between interviewees' perceived and preferred models of board evaluation in S5.....	140
Table 4.6.3	Perceived actual model of board evaluation in S5.....	141
Table 4.7.1	Summary of gaps between interviewees' perceived models of board evaluation in S6.....	149

Table 4.7.2	Gaps between interviewees' perceived and preferred models of board evaluation in S6.....	150
Table 4.7.3	Perceived actual model of board evaluation in S6.....	151
Table 4.8.1	Summary of gaps between interviewees' perceived models of board evaluation in S7.....	159
Table 4.8.2	Summary of gaps between interviewees' perceived and preferred models of board evaluation in S7.....	160
Table 4.8.3	Perceived actual model of board evaluation in S7.....	161
Table 4.9.1	Summary of gaps between interviewees' perceived models of board evaluation in S8.....	169
Table 4.9.2	Summary of gaps between interviewees' perceived and preferred models of board evaluation in S8.....	170
Table 4.9.3	Perceived actual model of board evaluation in S8.....	171
Table 4.10.1	Summary of gaps between interviewees' perceived models of board evaluation in S9.....	183
Table 4.10.2	Summary of gaps between interviewees' perceived and preferred models of board evaluation S9.....	184
Table 4.10.3	Perceived actual model of board evaluation in S9.....	185
Table 4.11.1	Overview of level of analysis.....	187
Table 4.12.1	Gaps between the EEBM's and the Chairperson's perceived models of board evaluation.....	188
Table 4.12.2	Gaps between the IBM's and Chairperson's perceived models of board evaluation.....	189
Table 4.13.1	Summary of gaps interviewees' perceived models of board evaluation across companies.....	192
Table 5.2.2	Aggregated preferred model of board evaluation.....	214
Table 5.2.3	Theoretical model of board evaluation.....	217
Table 6.2.1	Categorisation of board members included in the focus group.....	238

List of figures

Figure 2.4.1	Board effectiveness.....	30
Figure 2.6.1	Board evaluation as a mechanism to assess board Effectiveness.....	34
Figure 2.10.1	The different board evaluation systems.....	57
Figure 3.1.1	Methodology: level of analysis.....	62



Chapter 1 Introduction

Introduction

The purpose of this chapter is to present the background, the purpose, the objectives and the structure of the thesis.

This thesis is set within the field of corporate governance and looks to board evaluations as a means of enhancing corporate governance.

Board evaluation has been introduced in the different Codes of Corporate Governance developed mainly during the last decade. Although board evaluations have been introduced in the codes of corporate governance as a means of assessing performance and thus enhancing board effectiveness (Rasmussen & Huse, 2009), little empirical research has been conducted to increase our understanding of board evaluation as a means of enhancing corporate governance.

While evaluations in general have been acknowledged in the management literature, they have been somewhat neglected in the corporate governance literature (Ingley & Van der Walt, 2002; Minichilli et al. 2007) despite the fact that increased pressure has been put on boards during the last two decades regarding their role as a corporate governance mechanism. Research of board evaluations in a corporate governance context is thus called for.

This chapter is structured as follows: In section 1.1 the common ground on which this research is conducted, and thus should be understood, is presented. This short presentation serves two purposes. The first is to introduce the different views on the purpose of corporate governance, and the second is to present the board of directors as a corporate governance mechanism, as the board is the focus in this research.

In section 1.2 a description of the problem that is to be explored is presented. Section 1.3 presents the proposition of the thesis, section 1.4 identifies its limitations and section 1.5 presents the structure of the thesis.

1.1 Identifying the common ground

1.1.1 *Development of corporate governance*

The concept of corporate governance can be dated back to the introduction of limited companies in the nineteenth century which separated the owner and management of the companies. With this separation came the need for legislation and regulation (Vinten, 1998).

The development of corporate governance is thus closely connected with the economic development of industrial capitalism, where different structures of companies were implemented and designed to “pursue new economic opportunities or resolve new economic problems” (Clarke, 2004:2). The development of Corporate Governance “as we know it today” started in the 1970s and 1980s after a period of managerial hegemony, during which Corporate Governance would be defined from a managerial perspective, viewing boards as “rubber stamps” for the management. This period was witness to many corporate take-overs which

were a response to an increase in companies' expenditures as managers gave themselves extremely high salaries. Within this context, means to reduce the rubber-stamp function of the boards were introduced. It was thought important that boards should be more involved in business activities where the goal should be to create value for shareholders through the creation of value in the company. This included setting objectives for the company and monitoring management. Another development that focused on value creation for shareholders was the need to align shareholders' and managers' goals. This came as a response to increased globalization experienced during the 1980s. During this period, there was a focus on short term increase in share value to meet the goal of institutional shareholders. The last trend of Corporate Governance has been a result of the recent financial scandals, such as that involving Enron. What became clear from these crises was the importance of commitment to other stakeholders, such as employees, customers, suppliers etc. These stakeholders suffered huge losses due to managers' effort to personally benefit from an increase in share value. This led to a broader perspective of Corporate Governance being introduced, reminding corporations about their responsibilities towards the larger society (Huse, 2007b).

1.1.2 The board as a corporate governance mechanism

Although several mechanisms of corporate governance are available, categorized as market-based, culture based and discipline based mechanisms (Lou, 2007), the board is viewed as the most important mechanism, being the link between the providers of capital (shareholders) and the users of capital to create value (managers) (Hermanson & Rittenberg, 2003:47), or more generally, "the link between the providers of funds and those who put them to use" (Cadbury, 2002:33).

If we view boards in the context of the developments presented above, we see that boards were previously viewed as "pawns" (Lorsch & MacIver, 1989), where the relevance of their existence had a legalistic perspective and they were considered to be the ornament of the corporate Christmas tree (Mace, 1971).

After the incidents in the 1970s and 1980s, their importance as a control mechanism having an "oversight role" was identified (Leblanc & Gillies, 2005; Minichilli, Gabrielsson, & Huse, 2007b). They are, however, increasingly viewed as an important asset for the organization, with the potential to contribute to a sustainable competitive advantage (Huse, 2005b; Minichilli, et al., 2007a), and are expected to play an active part in the strategic process of companies, including setting company goals (Cadbury, 2002; Garratt, 2007a; Monks & Minow, 2004).

Thus, we have seen increased expectations related to boards' involvement in providing leadership, regarding being in control, and with respect to increased pressure on value creation.

1.1.3 *What is corporate governance?*

The obvious answer is that corporate governance is about the governing of companies. This might seem to be simply manifest and thus an unnecessary fact to give at the start of this dissertation. As seen from section 1.1.1, however, development of corporate governance indicates that there has been a shift from defining corporate governance narrowly, to a much broader view of what corporate governance is. It is a fact that the concept of corporate governance varies, depending on whether it's viewed from sociological, financial, managerial, organizational or other perspectives. However, there is general consensus that corporate governance is a system for directing and controlling companies (Jonsson, 2007), as illustrated by the definition provided in the Cadbury report in 1992:

“Corporate Governance is the system by which companies are directed and controlled”
(Cadbury, 1992)

1.1.4 *The purpose of corporate governance*

The purpose of corporate governance may be identified from both a theoretical and a practical perspective.

From a theoretical perspective different purposes can be identified. Huse (2007a) categorized definitions of corporate governance into four, which can give an indication of the different purposes. Some definitions are offered with the shareholder supremacy where the purpose is to enhance shareholders' value. Typically, we find the agency theory and stewardship theory within this category. Other definitions identify value creation for stakeholders as the purpose. The stakeholder theory is categorized here. Another set of existing definitions identify the purpose to be related to “doing what is best for management”. Within this category we find the managerial hegemony.

The last category is the definitions where the purpose of corporate governance is to do what is best for the company. Within this category we find the institutional theory and the resource dependency theory. The different theories, however, do not clearly state any purpose. This has to be identified from the role of the board identified in these theories, assuming the tasks the boards perform are performed to meet a purpose. However, given that the theories identify different roles and tasks of boards, and no theory is developed to capture the several different roles the board have (Zahra & Pearce, 1989), it is useful to identify the purpose inductively through the Codes of Corporate Governance.

The practical perspective of the purpose can be derived from the different Code of Corporate Governance developed internationally and nationally. As of October 2009, there are 264 different Corporate Governance Codes and Principles & Recommendations published in accordance with the European Corporate Governance Institute (European Institute for Corporate Governance, 2009). These different codes and recommendations offer a multitude of definitions from which the purpose may be derived. The approach of going beyond single countries when looking for the purpose is sensible given the fact that many of the codes developed have been

initiated and developed by private organizations (Spira & Page, 2003). As such, there is a risk that these codes represent a skewed view regarding the purpose of corporate governance. OECD offers an explanation of the purpose. Given that 30 countries are members of the OECD, including the UK, the USA, and Norway, it is assumed that the purpose indicated is representative in a global context. The purpose as identified by the OECD is:

“Good corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interest of the company and its shareholders and should facilitate effective monitoring. The presence of an effective corporate governance system within an individual company and across an economy as a whole helps to provide a degree of confidence that is necessary for the proper functioning of a market economy. As a result, the cost of capital is lower, and firms are encouraged to use resources more efficiently, thereby underpinning growth” (OECD 2004:13).

From this definition it can be derived that the overall purpose of corporate governance is to ensure economic growth. Economic growth is obtained by lower cost of capital and efficient use of resources by the company. This is ensured if the board and the management pursue objectives that are in the interest of the company and its shareholders. Although it can be argued that the purpose identified is to do what is best for shareholders, the identification of doing what is right for the company expresses the possible conflicts between what is best for shareholders and what is best for the company, indicating that there is a trade-off between the two.

Economic growth in this context should be assumed to be beneficial for the society as a whole, not only the shareholders.

The purpose of the Norwegian Code for Practice of corporate governance is to regulate the separation of roles between shareholders, the board of directors and executive management more comprehensively than is required by law. Its purpose is to strengthen confidence in companies, and to help ensure the greatest possible value creation over time in the best interest of shareholders, employees and other stakeholders (NUES, 2009:6). The purpose suggests that the Norwegian Code for Practice of corporate governance has a stakeholder view.

1.1.5 Summary and implication for this research

As seen from the presentation in this section, corporate governance has developed through incident during the last four decades. The board of directors has been identified as an important governance mechanism, and is increasingly seen as an asset for the company, being involved in tasks related to directing and controlling. The purposes of corporate governance were identified from a theoretical perspective and it has been established that the different corporate governance theories deviate in terms of purpose and means to meet the purpose. These differences will be explored further in chapter two, section 2.2. The overall purpose of corporate governance was identified through the analyses of the different Codes of Corporate Governance which have developed internationally and nationally to ensure economic growth for the society through ensuring incentives for the board and management to pursue objectives that

are in the interest of the company and its shareholders. To meet the purpose of corporate governance, boards have different roles, and perform different tasks.

Board evaluations are about assessing actual tasks against expected tasks (Huse & Søland, 2009; Rasmussen & Huse, 2009). As indicated in this section, one theory alone can never explain the different tasks performed by the board (Carpenter & Westphal, 2001; Daily, Dalton, & Cannella, 2003; Stiles & Taylor, 2001a). Hence, a multi-theoretical approach is called for.

As indicated above, the presence of an effective corporate governance system is important to reach the overall purpose. The existence of Codes of Corporate Governance will contribute to such systems being implemented in companies.

The board is an important mechanism in the system of corporate governance, with the possibility to contribute to the overall purpose of corporate governance.

If we assume that board effectiveness should be linked to meeting the goals set by a company, we can define the concept of board effectiveness as:

Ensuring that the directors, their defined tasks and processes contribute to adding value, enabling the company to reach the goals set.

Having identified the framework in which the research is conducted, it is now possible to identify the problem.

1.2 Purpose of the study

1.2.1 Introduction

It is said that a thesis should be built around a central problem which it should try to solve (Booth & Williams, 2003; Popper, 2002).

Although it may be viewed as over-optimistic to believe a thesis can solve a problem, it may contribute to a better understanding of the problem, and thus contribute to the solving of a problem.

The quest in this thesis is to get a better understanding of board evaluations as a means to enhance corporate governance through increased board effectiveness.

In order to ensure the overall purpose of corporate governance is to be met, it can be assumed that any measures implemented have the ability to enhance corporate governance, and that introduction of board evaluations in the different Codes of Corporate Governance developed was grounded on such reasoning. To what extent board evaluations are able to fulfil this objective is a question which has not yet been answered and is thus part of the identified problem. Although listed companies both nationally and internationally to a large extent conduct board evaluations, transparency related to board evaluations is low (Heidrick & Struggles, 2009; Rasmussen, 2008). Lack of knowledge about how board evaluations are conducted calls for research into this, before conclusion can be made about whether there is a relationship between board evaluation and board effectiveness.

However, before the research propositions are presented, it will be useful to get some perspective on what board evaluations are, and their importance in a corporate governance context.

1.2.2 The concept of board evaluation in corporate governance

The boards are increasingly viewed as an important asset for the organization, with the potential to contribute to a sustainable competitive advantage (Huse, 2005b; Minichilli, et al., 2007b). Thus, we have seen increased expectations regarding their involvement in providing leadership, being in control, and an increased pressure regarding value creation.

As identified earlier, there has been increased demand and pressure on boards regarding accountability issues and member liability during the last decade (Minichilli, et al., 2007b).

These demands have been materialized in the developed Codes of Corporate Governance, internationally and nationally. One of the recommended actions in these codes is that boards should perform an evaluation of their work.

The Norwegian Code for Practice of Corporate Governance has also included board evaluations, stating that “the board should evaluate its performance and expertise annually” (NUES, 2009:34). According to Cadbury (2002), the objective of any assessment, whether it is individual or as a body, is the same, ie, to learn from past experience. In a corporate governance context, an evaluation will enable the board to assess performance against a set standard. A gap analysis, when appropriate, might contribute to establishing the reason(s) why actual performance deviates from a set standard, and corrective actions may be taken. Thus, board evaluations are viewed as being important in terms of assessing the effectiveness of boards (Gabrielsson & Huse, 2005; Ingley & Van der Walt, 2002, 2005; Leblanc, 2005b-a; Leblanc & Schwartz, 2007; Long, 2006; Minichilli, et al., 2007b; Nicholson & Kiel, 2004). Preliminary studies (Heidrick & Struggles, 2007, 2009; Rasmussen, 2008) show that companies increasingly perform board evaluations. As can be identified from the Heidrick and Struggles report from 2009, on average, 75% of listed companies (in the 13 European countries included in the survey) perform board evaluations. This is an increase from an average of 44% found in the 2007 report. The study is based on annual reports of the 20 largest listed companies in each country and to what extent it is disclosed in the annual report that board evaluation has taken place. The study shows that 98 % of companies in the UK perform board evaluations representing the highest percentage. Portugal is the country where board evaluations are not often conducted, according to the study. Here, only 20 % of companies were found to perform a board evaluation. Analysis of Codes of Corporate Governance in the countries included in the study show that board evaluations are recommended in twelve of the thirteen countries represented in the study. The current Code in Portugal has not included such a recommendation, which may explain the low percentage. Preliminary studies in Norway (Rasmussen, 2008) confirm the findings in the Heidrick and Struggles study. Based on secondary information given by the 22 largest non-financial companies in terms of market value

in their annual reports, it can be concluded that 73% of Norwegian listed companies perform board evaluations.

Further, the Heidrick and Struggles report confirms the findings in my preliminary study in Norway; little to no information is given about the board evaluation's process in terms of the modality used, the subjects discussed and the measures being taken. This suggests that the level of transparency of the board evaluation process is low.

The fact that board evaluations are recommended by many Codes of Corporate Governance, and given their possibility to assess actual task against expected tasks, indicates that board evaluations are considered an important corporate governance mechanism useful for assessing and enhancing board effectiveness. However, no research has yet been done to increase our knowledge about the approaches adopted by boards on evaluations when performing board evaluation. Thus, it is not possible to establish to what extent board evaluations implemented by Norwegian listed companies contribute to enhanced corporate governance.

A problem formulation which can be formulated within this context is then:

To what extent does board evaluation in Norwegian listed companies contribute to enhanced corporate governance?

The next section will present the propositions developed in the context of the problem formulation above.

1.3 Research approach, methodology and propositions

1.3.1 Research approach and methodology

As previously indicated, no research has been conducted in Norway to establish to what extent board evaluations contribute to enhanced corporate governance. This research is thus exploratory, and the aim is to increase knowledge about the approaches adopted by boards regarding board evaluations and to what extent board evaluations contribute to enhanced corporate governance.

This research has adapted a behavioural (process-related) view, focusing on what the boards do (Zahra & Pearce, 1989). One implication of this view is the use of primary data rather than secondary data. Given the explorative nature of this research, as no research to document a correlation between board evaluation and board effectiveness has been conducted, such an approach is called for. Further, a process-related approach calls for a multi-theoretical approach to be adopted.

In this research, a deductive and inductive approach has been adopted. The deductive approach has been adopted, within the existing theories of corporate governance, to gain better knowledge about board evaluations as a mechanism to enhance effective corporate governance.

The inductive approach has been applied to use the empirical result in the search for a model for board evaluation which can, if implemented, contribute to enhanced board effectiveness in a Norwegian context.

The research is qualitative case study of nine of the largest listed Norwegian companies in terms of market capitalization that are currently performing board evaluations. In each company, an average of three board members was interviewed about the previously conducted evaluation. In each company the Chairperson, the employee-elected board member, and one board member defined as “independent” in the context of the Norwegian Code for Practice of Corporate Governance (see chapter three, section 3.2.1) was interviewed.

Triangulation has been applied to overcome the shortcomings of using one method in research. This research has used focus groups to increase the conclusion validity of the research and to discuss the model of board evaluation developed as a consequence of the findings in the research. The process of and conclusions from the focus group are discussed in chapter six.

1.3.2 Research propositions

By interviewing board members in Norwegian companies and asking questions related to the implemented process of board evaluation, board members’ involvement and their aspirations regarding board evaluations, valuable insight into the process of board evaluation and board members’ approaches towards board evaluations can be gained. Through this insight, some conclusions regarding its contribution towards board effectiveness can be made.

As indicated previously, although the Norwegian Code for Practice of Corporate Governance recommends that board evaluations are conducted, it is left to the companies themselves to decide the different elements of the process. The first research proposition is put forward to get general insight into board evaluations as performed by Norwegian listed companies and can be expressed as follows:

“What are the approaches adopted by Norwegian listed companies regarding board evaluation?”

By interviewing board members and analyzing the board evaluation forms used, knowledge about how boards perform board evaluations can be gained. Based on the input given by the different interviewees regarding the existing board evaluation process and the evaluation form used, an actual model of board evaluation can be identified at company level but also across companies.

By interviewing three board members in each company, valuable insight into how different board members perceive the existing board evaluation process and knowledge about their approach towards it can be gained. The second proposition can be expressed as follows:

“What factors influence the approaches among boards?”

The third research proposition put forward is related to establishing whether the board evaluations as perceived by the different participants of the same evaluation reflect the aspiration these board members have regarding board evaluations. This proposition can be expressed as follows:

“Is there a gap between the perceived actual models of board evaluation and participants’ preferred model of board evaluation? And to what extent do the approaches differ between different board members and participants?”

By establishing a preferred model of board evaluation, gap analysis between the perceived actual model of board evaluation and the preferred model can be performed.

The findings from the field research can be used to analyze differences between board members across companies.

The last research proposition uses the findings in my field research and combines it with the existing literature on board evaluation with the objective of building a model of board evaluation for Norwegian companies which could support improvement of Norwegian boards. The proposition is expressed as follows;

“To what extent can a Norwegian board evaluation model contributing to board effectiveness be derived from the field research?”

1.3.3 Potential contribution

Potential contribution of research can be explained in terms of both academic contribution and practical contribution (Jonsson, 2007). As expressed by Remenyi (Remenyi, et al., 1998), academic contribution is made if the research extends our ability to understand phenomena. In an academic context, this research will contribute to an increased understanding of board evaluations as a mechanism to enhance board effectiveness.

In terms of practical contribution, there are several possibilities. This research can contribute to enhanced understanding and awareness of board evaluations as a mechanism of corporate governance, and through this increase their contribution to enhanced corporate governance. The research may also have the possibility to be used as input for development of future Codes for Practice of Corporate Governance providing companies with a framework they can use when conducting board evaluations.

1.4 Limitations of the research

As with all research, some limitations can be identified. These limitations can be related to:

Sampling

Board members’ experience as board members and with board evaluations

Method of data collection

1.4.1 Sampling

The cases used in this research are not randomly selected. The sample frame used in this research is the 25 largest companies in terms of market capitalization as of 31.12.2007. Of these companies, 3 companies were excluded because they are financial companies and thus are subject to a different set of regulations influencing the corporate governance structure. One company in the remaining set of companies was listed twice through A and B shares. Based on the annual report of these companies, only 16 of them had performed a board evaluation in 2007. However, assuming there is a risk that board evaluation might have been performed without communicating it in the annual report, it was decided to send a letter to all 21 companies in the sampling frame with an invitation to contribute to this research. 9 of the 16 companies, which in their annual report communicated that board evaluations were performed, responded positively to my request.

One problem with using market capitalization when choosing the sampling frame is, however, losing out on the possibility to sample diversified cases in terms of company size (measured by several indicators, such as turnover, profit, number of employees, etc), different industries, board size, board composition, number of owners, etc.

However, given the exploratory nature of this research and the fact that it was important to select companies that **do** perform a board evaluation, a trade-off between diversified cases and choosing a sample frame with large listed companies was made.

This trade-off was made on the preliminary study that the majority of large listed companies performed board evaluations, and on the assumption that there is a higher probability that large companies in terms of capitalization perform board evaluations than smaller companies. The study is designed as a theoretical motivated case study with the ability to formulate hypotheses. In possible future studies where the generated hypotheses are tested, measures can be taken to ensure the data collected represents a diversified sample.

1.4.2 Board member experience as board members and with board evaluations.

The sampling of companies and selection of board members to include in this research did not take into account their experience as board members or their experience with board evaluations. The selection of board members to interview was based on their position (such as the Chairperson) or the category of board members they could be affiliated with (employee-elected board member, or independent board member as defined by the Norwegian Code for practice of Corporate Governance – see chapter three section 3.2.1). In addition, one of the Directors interviewed in each company was a woman (given the statutory requirement of 40% gender representation in Norwegian listed companies).

In order to meet the identified possible limitation of little experience with performing board evaluation, the aid memoire was sent out to all the interviewees before the interview. This gave all the interviewees the possibility to review and reflect on the questions before the actual interview.

1.4.3 Method of data collection

In this research, the use of primary data (open-ended standardised interview) is the main input. The method used is qualitative data, which may influence the ability to generalize from the findings.

However, the goal of width/breadth in this research (closely associated with the possibility to generalize) has been traded for the purpose of obtaining depth in my study, a purpose perceived important for this exploratory research.

1.5 Thesis structure

The thesis is divided in 7 chapters as follows:

In chapter 2, the theoretical framework within which this research is done is presented.

Previous research influencing this research will be reviewed, and a research gap presented.

From this research gap, the propositions in this research will be presented and discussed. The context in which this research is performed is also outlined.

In chapter 3, the methodology used in this research will be presented and discussed. The chapter sets out the criteria used for determining the nature of the research, designing the research, collecting and analysing the data. It will consider the strength and limitations of the methodology used and justifications for the choices made will be put forward.

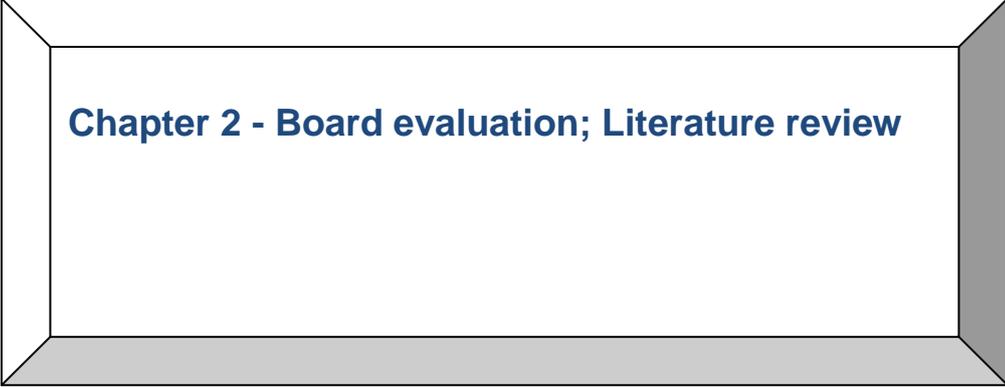
In chapter 4 analyses at company level and across companies are performed. At company level, the purpose is to identify the interviewees' perceived actual models of board evaluation in addition to their preferred model of board evaluation. Gap analysis between the interviewees' perceived and preferred models of board evaluation will be performed. From these analyses, and by analyzing the form used in the evaluation, an actual model of board evaluation can be identified.

Identified gaps at company level regarding the interviewees' perceived models of board evaluation are also analyzed at an aggregated level in search for similar gaps across all companies, suggesting reasons for why these gaps exist.

In chapter 5 further analyses across companies are performed. The identified gaps in chapter four at an aggregated level are brought forward to chapter five and will be used as input in the search for my board evaluation model. The preferred model of board evaluation and the actual model of board evaluation identified in chapter four are analyzed at an aggregated level for the same purpose. The findings from the analyses in chapter four will be compared to a theoretical model of board evaluation, and a suggested model of board evaluation for Norwegian companies presented.

In chapter 6, the focus group is discussed in terms of using a focus group as triangulation, and the process of conducting the focus group. In this chapter, the result of the focus group will be analyzed and compared to the previous findings and suggestions in chapter 5.

In chapter 7, a summary of the research and its conclusions is presented and possible future research identified.



Chapter 2 - Board evaluation; Literature review

Introduction

In this chapter, the theoretical framework within which this research is conducted is presented. Further, existing literature relevant for this research is presented and discussed. Through this discussion, the research gap is identified and the research propositions presented. The chapter also presents the governance system in Norwegian listed companies in order to give the reader a better understanding of the composition of boards in Norwegian boards, and thus get a better understanding of the context in which the research is performed.

The chapter starts with a presentation of the board's role and tasks, and goes on to present these tasks within the framework of existing corporate governance theories. The aim of the first two sections is to identify what boards do and why.

As board evaluation is about assessing board performance, identifying the tasks they perform is important but not sufficient. An important element of board evaluation is how these tasks are performed. These behavioural issues are discussed in section 2.3. In section 2.4, the concept of board effectiveness is discussed, and in section 2.5 previous researches related to board effectiveness are discussed. In section 2.6, the model used in this research is presented. In section 2.7 and 2.8 the concept of board evaluations is presented, and a literature review performed. The purpose of this literature review is to identify the research gap, and to identify my research propositions which are presented in section 2.10. However; given the lack of empirical research on board evaluation, the literature review also serves the purpose of building a framework for collecting data and for the development of a model of board evaluation for Norwegian listed companies. In section 2.9 some characteristics of the governance system for Norwegian listed companies are presented, with the purpose of giving the reader a better understanding of the composition of boards in Norwegian listed companies. The chapter ends with a presentation of the research propositions and how they will contribute to closing the research gap identified through the literature review performed throughout the chapter.

2.1 Role and tasks of boards

Board evaluation is about assessing the tasks performed by the board. Corporate governance theories are used to explain the roles and tasks boards perform, and these theories can help us understand what boards do.

However, the theories view the role and tasks of the boards differently, and it is therefore useful to review some of these theories to identify the differences in content and context.

As the purpose of this review is to identify the differences in tasks according to the corporate governance theories, a useful starting point is to discuss the tasks performed by the board in general terms.

As identified previously, corporate governance can be defined as

“..... the system by which companies are directed and controlled” (Cadbury, 1992:625)

In this definition, the role of boards is expressed as the function of directing and controlling. Many approaches have been used to classify the roles of the boards.

One of the typologies offered about the board's role is developed by Hung (Hung, 1998). This typology tried to categorize the different theories based on the board's involvement in the decisions-making process.

According to Hung (1998:101) the role of the boards may be divided in six:

The linking role, where the board acts as a link between the organization and its environment, as the companies depend on this environment to have access to resources.

Coordinating role, where the board is seen as responsible for balancing the conflicting interests of internal and external stakeholders.

Control role, or the conformance function, where the role of the board is to control top management and firm-internal issues(Huse, 2007c)

Strategic role, where the board is seen as having an advisory role and contribute to the development of strategy in collaboration with management

Maintenance role, is the role where the board analyses and tries to analyse and understand the external environment as this environment exerts restrictions, put limits and pressure on the board to do other things than maintain the status quo of the organization

Support role, where the role is to legitimize the strategic decisions made by management.

However, other approaches have been used to classify the role of boards, such as classifying roles based on the relationship between the CEO and the board (Huse, 2007d). Here he characterises boards as clan boards, barbarian boards, or aunt boards.

Zahra and Pierce (1991) used the power of the CEO and the board as the basis for categorizing roles (Jonsson, 2007), defining boards as caretakers, statutory, proactive, and participating boards.

However, the most common way to classify the roles boards perform is through tasks (Huse, 2007c; Huse, Minichilli, & Schoning, 2005; Nicholson & Kiel, 2004; Zahra & Pearce, 1989). The starting points of most discussions regarding the board's role as categorized by tasks, are the control role, the strategy role, and the service role, identified by Zahra and Pierce (1989).

2.1.1 *The control role of the board*

The concepts of control and monitoring are often used synonymously, although they are defined differently by researchers.

The concept of control may be divided into external and internal control mechanisms (Huse, 2007a). The external control tasks are performed on behalf of externals and they have an external perspective. Examples of tasks in this category can be related to controlling that shareholders receive required return on investment, or ensuring compliance with laws or regulations. Control tasks with an internal focus are also performed on behalf of external stakeholders, but these control tasks are related to controlling manager behaviour and firm-internal issues (Huse, 2007c). One of the tasks performed may be to control management by monitoring its decisions and actions (Jonsson, 2007). Different tasks have been identified as

part of the control role of the board (Korac-Kakabadse, Kakabadse, & Kouzmin, 2001:25), such as “safeguard interest of shareholders, selecting CEO, monitoring CEO/management performance, reviewing CEO analyses, rectify executive decisions and separating decision control from decision management”.

2.1.2 The strategic role of the board

The strategic role of the board can be associated with the directing role of the board. However, the strategic role can also be a part of the control role of the board, as the tasks may be associated with control functions of the board. The reason for this is that one of the tasks identified as related to the strategic role of the board is the monitoring of management’s performance regarding implementation of strategy (Beatty & Zajac, 1994; Fama & Jensen, 1983). In another context, the strategy role may be part of the service role of the board as identified by Johnson et al. (Johnson, Dayly, & Ellstrand, 1996). In this setting, the board offers advice to management about the strategic process. Identified strategic tasks are, “guide corporate mission, develop, implement and monitor the company’s strategy, allocate resources and span boundaries” (Korac-Kakabadse, et al., 2001:25).

2.1.3 The service role of the board

As indicated above, the service role of the board can be associated with the strategic role of the board. In the above mentioned context, the service role has an internal focus. The service role of the board is also associated with the board being consultants for management, offering their competency and knowledge.

Another aspect of the service role is associated with boards acting on behalf of internal stakeholders where the focus is external. These tasks may be defined as the networking, lobbying and legitimacy tasks to influence or control resources deemed important to the company (Huse, 2007c). The strategic role of the board can be associated with both the controlling function and the directing role of the board, while the service role of the board is closely related to the directing function of the board. Included in the service role is co-opting a corporation’s control, enhancing corporate reputations and formulating and implementing decision making (Korac-Kakabadse, et al., 2001).

The next step is to view these role and tasks within the theoretical framework represented by the corporate governance theories.

2.2 Theories of corporate governance

The purpose of this section is to discuss the identified board roles and tasks within the existing theories of corporate governance. The following theories are presented and discussed in terms of these mentioned role and tasks: the agency theory, the stewardship theory, the stakeholder theory, institutional theory, resource dependency theory, managerial hegemony theory and the class hegemony theory. In addition to discussing these theories, the legalistic perspective and

the contingency perspective are presented. The purpose of the section is to capture the different views regarding the role of boards and to introduce the multi theoretical perspective of this research.

2.2.1 Agency theory

Agency theory (and transaction-cost theories) has been the most “dominant force of the theoretical understanding of Corporate Governance in the last decade of the 20th century (Clarke, 2004:57). Support for this can be found in the classification done by Gabriëlsson and Huse (2004) of research articles published in six leading academic journals in the period between 1990 and 2002. They found that in the 127 articles published, more than half of these articles used the agency theory as the main theoretical perspective. (Gabriëlsson & Huse, 2005).

The theory that originated in the study of Berle and Means (1932) focuses on the relationship between shareholders and managers in large corporations.

Jonsson (2007) argues on the basis of previous research (Lubatkin, et al., 2007; Uihøi, 2007) that it is questionable if the theory is applicable in other settings, or whether it was even intended for any other setting than this.

In this theory, an agency relationship is defined as “a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent (Jensen & Meckling, 1976:306). This separation became necessary as companies grew, separating ownership and management. In this setting, principals hired managers, signing a contract related to what managers should do with the funds provided, and how return on capital should be divided between the two. The owners are viewed as residual risk takers as they are the only group that does not have a contract identifying a specific return on investment. The problem is that the outcome of the contracts is not easy to predict, leaving managers with substantial control rights and the discretion over how to allocate investors’ funds (Clarke, 2004). As the agents are assumed to seek personal wealth, status, leisure or the like (Jensen & Meckling, 1976), control mechanisms together with incentive schemes should be implemented in order to mitigate the differences. The agency theory claims that defining shareholders as the most important stakeholder will benefit the economy as a whole. Because investors are risk averse, they will minimize risk by means of diversifying their investment. This will allow optimal risk allocation, beneficial for the corporate economy, and thus for the economy as a whole.

2.2.1.1 Agency theory; board role and board tasks

As seen from the above, conflicts are resolved through the alignment of incentives, trying to find the optimal structure of control relationships between the agent and the principal. The board’s role, acting on behalf of the owners, is to monitor managers’ activities in order to minimise agency costs and thus protect shareholders’ interests (Stiles & Taylor, 2001b). This will provide shareholders with some assurance that managers will try to achieve outcomes that will benefit

the shareholders (Schleifer & Vishny, 1997). The main function according to the Agency theory is thus the control role.

In a corporate governance context, one important way to secure this is to have an effectively structured board of directors, and to hold potentially self-serving managers in check by performing checks and performance evaluations (Davis, Schoorman, & Donaldson, 1997) cited in (Clarke, 2004:120).

2.2.2 Stewardship theory

The stewardship theory also describes the relationship between the shareholders (or the board as their representatives), and management. However, this theory, rooted in organisational psychology and sociology (Davis, et al., 1997), insists that humans are motivated by a larger range of factors than identified by the agency theory, such as “the need for achievement, responsibility, and recognition, as well as altruism, belief, respect for authority and the intrinsic motivation of an inherently satisfying task” (Donaldson, 1990:372). The assumption of this theory is that executives as a general rule are trustworthy (Argyris, 1964; Donaldson & Davis, 1991; Herzberg, Mausner, & Snyderman, 1959). In this context, it may be viewed as a counter theory to agency theory, as the managers in this theory are considered good stewards of the corporate assets they are trusted with, and not the self-interested and opportunistic actors described in the agency theory (Donaldson, 1990). The stewardship theory defines situations where managers are not motivated by individual goals, but rather are stewards whose motives are aligned with the objectives of their principals. By seeking the goals of the organization, the principals will benefit, as it is assumed that the utility function of the steward is maximized through the company’s performance, and he will make decisions in accordance with this. According to Davis et al. (1997:4); “Stewards in loosely coupled, heterogeneous organizations with competing stakeholders and competing shareholder objectives are motivated to make decisions that they perceive are in the best interest of the group,....and thereby satisfying the competing interest of shareholders”. In this context, the shareholders’ and executives’ interests are often aligned (Daily, et al., 2003; Davis, et al., 1997)

2.2.2.1 Stewardship theory; board role and board tasks

Whereas the agency theory seeks to use control and incentive mechanisms to secure effective corporate governance, the stewardship theory assumes that these conflicting goals are aligned and the role of the board is a strategic one. Within this context, the board will be involved in guiding management to achieve the corporate mission and objectives (Hung, 1998). According to the stewardship theory, control factors are not important. It may even have a negative effect on productivity, because it “undermines the pro-organizational behaviour of the steward (Davis, et al., 1997:121) as it will lower the motivation of the steward (Argyris, 1964). Within this framework, directors who are specialist executives will be preferred over outside independent non-specialist directors.

2.2.3 Stakeholder theory

While the agency theory and the stewardship theory look at the relationship between shareholders and management, the stakeholder theory looks at the relationship between stakeholders, the board and the company (management). The foundation on which this theory is based is the fact that, although shareholders are the owners of the company and as such have the right to exercise control over the company according to the assumptions of the agency theory (Blair, 1995), shareholders are owners of equity and it is argued their control rights should be given in this context as they do have a property right in the company. This theory views organizations as multilateral agreements between the company and its stakeholders (Freeman, 1984, 1990; Freeman & Reed, 1994), where stakeholders are defined as “any individual or group who can affect or is affected by the achievement of the organization’s objective” (Freeman, 1984:IV) The theory stresses that the company must accept responsibility for all stakeholders, such as customers, employees, and the society as a whole, and not assume responsibility only for the shareholders (Carter & Lorsch, 2004). According to this theory, companies make decisions based on considerations about all stakeholders, not only based on the goal of maximizing profit for shareholders. In this context, no distinction is made between internal and external participants.

2.2.3.1 Stakeholder theory; board role and board tasks

The governing role of the board, according to this theory, is a coordinating role (Hung, 1998), balancing the conflicting interests of the stakeholders with an interest in the company. This coordinating role has two implications for the board and its role; it must negotiate and compromise the interest of the stakeholders in general, on the one hand, and the interest of shareholders and management on the other hand. The role of the board within this context is a monitoring role, ensuring that the interests of all stakeholders are upheld by the company. Balancing these interests will enable the company to reach the goals set.

2.2.4 Institutional theory

The concept of institutional theory has been developed through many phases. Its origin is considered to be the writing of Max Weber (Weber, 1978), but it has changed over time as researchers within the theory made their contribution to it (DiMaggio & Powell, 1981; Fligstein, 1985; Meyer & Rowan, 1977a; Meyer, Scott, & Strang, 1987). The rationale behind companies is that they are instruments designed to attain specific goals (Scott, 1992). How the organization is structured will reflect their goals and structures will be designed in order to attain these goals. He goes on to argue that because the goals of any organization change over time, the best structure to attain the goals will vary. Hence, the organization’s structure is viewed as a means, as an instrument that can be modified if necessary to improve performance.

However, the new institutional theory, of which Meyer and Rowan are considered to be the main contributors (Meyer & Rowan, 1977b), argues that organizations are structured by phenomena in their environment and tend to become isomorphic with them.

The structures and processes legitimated by the environment are viewed as sensible “because it implies responsible management, pleases external constituencies, and avoids potential claims of negligence if something goes wrong” (Eisenhart, 1988) cited from (Judge & Zeithaml, 1992:2)

. There are three types of isomorphism: coercive, mimetic, and normative isomorphism (Mintzberg, Ahlstrand, & Lampel, 1998). The coercive isomorphism describes a situation where there is pressure for companies to conform, exerted through standards and regulations.

Mimetic isomorphism describes a situation where companies imitate and borrow from successful competitors and industrial leaders. Normative isomorphism describes a situation where the implemented structures and processes are influenced by professional expertise.

2.2.4.1 Institutional theory; board role and board tasks

Within the context of institutional theory, it might be argued that corporate governance structures established with the organization will secure that the organization reaches the goals set. In this context, the board will have a maintenance role (Hung, 1998), acting to maintain the relationship between the organization and the environment in which it operates (Tolbert & Zucker, 1983). The tasks related to this role can be related to the monitoring function of boards (Berghe & Baelden, 2004).

2.2.5 Resource dependency theory

This theory has a sociological origin (Stiles & Taylor, 2002) and may be categorized as a theory with an extrinsic perspective, where the external environment will have an effect on the governing function of the board. The theory focuses on the importance of human and social capital (Nicholson & Kiel, 2004). The social capital is described as networks, status and goodwill, while by human capital is meant existing experience, expertise and reputation (Hillman & Daziel, 2003; Nahapiet & Ghoshal, 1998).

By seeking links with its environment, the company tries to regulate interdependence, in terms of reducing uncertainty and transaction costs associated with this dependency (Williamson, 1984). This theory is used to explain interlock directorates. Interlock is used to exchange resources between companies and their external environment.

This exchange is vital and a way for companies to cope with “the need for obtaining valuable resources and at the same time control other organizations through manipulation of the available resources” (Pfeffer & Salancik, 1978:161). It is thus viewed as essential for the survival of the company, but also for effective performance. Directors bring resources to the company in the form of “information, skill, access to constituents such as suppliers, buyers, policy decision makers, social groups, but it will also provide legitimacy for the company” (Gales & Kesner, 1994). Research done (Useem, 1978) observed that companies control uncertainties by offering directorships to companies causing threats and uncertainty.

2.2.5.1 Resource dependency theory; board role and board tasks

The linking role of the board may be explained by the resource dependency theory (Pfeffer, 1972). Pfeffer argues that company board size and composition are “rational organizational responses to the condition of the external environment“(Pfeffer, 1972:223) and build on the notion that the internal structures of the company match the demands of the environment in which it operates (Lawrence & Lorsch, 1967).

As indicated above, corporate governance issues are dealt with by securing that boards are linked with the environment. The purpose of this is to secure needed resources and protect the company against threats and uncertainty. One way to obtain this is through interlocking in order to facilitate and obtain resources (Pfeffer & Salancik, 1978). A large and diversified board will greatly reduce the uncertainties companies face, where the directors represent competitors and other environmental constituents (Stiles & Taylor, 2002). In the company where executives lack the needed expertise, external (or non-executive) directors may provide the skill and knowledge of the external environment (Carpenter & Westphal, 2001; Pfeffer & Salancik, 1978). The tasks performed by the board are thus related to the directing function of boards.

2.2.6 Managerial hegemony theory

The managerial hegemony theory is defined as a descriptive theory (Huse, 2007c). It stems from the early work of Berle and Means (Berle & Means, 1932) and thus builds on the above mentioned separation of ownership and control. As companies grew, they funded this growth by means of increased share capital. Thus the number of owners increased, diluting the possibility to exercise control over the company and leaving managers with a growing concentration of economic power. In this context, the weakness of shareholder control may lead to managers becoming self-serving, and thus pursuing objectives of their own choice (Parkinson, 1993).

It has been argued that in profitable companies, managers are even less dependent on owners for capital needed when pursuing their own goals (Mizruchi, 1983), as managers may use retained earnings to fund future projects. In this theory, the CEO is the person with power. Research shows (Jonsson, 2007) that this power is drawn from a variety of sources, such as: control over board nominations (Foster, 1982; Goodrich, 1987; Kosnik, 1987; Mace, 1971), control over remuneration (Aram & Cowan, 1983), the limited time allocated to board work by non-executive directors (Patton & Baker, 1987), superior expertise of the executives, (Finkelstein, 1992), and the culture in the boardroom with both executives and non-executives with its potential to subside the voice of non-executive directors (Herman, 1981; Lorsch & MacIver, 1989; Mace, 1971; Pettigrew & McNulty, 1995) The CEO is the link between the board and general management and has the possibility to influence the flow of information in both directions. In this context, the role of the board is what the CEO decides it to be.

Research done(Mace, 1971) demonstrated that earlier hypotheses expressing boards as a means to control the management/agents were a myth, as the boards tended to be generally passive. This view has later been confirmed by other researchers(Lorsch & MacIver, 1989).

2.2.6.1 Managerial hegemony theory; board role and board tasks

As indicated above, the board functions as management's rubber-stamp(Herman, 1981) The board exists because of legal requirements about the establishment of boards in companies. According to this theory, the board will not be viewed as an effective mechanism in a corporate governance context. They are passive participants, legitimizing decisions made by the management(Mace, 1971). The role of the board, according to this theory, can be defined as a support role (Hung, 1998) and expected tasks can be categorised within the direction function of boards.

Although the above theories explain the different roles of boards according to Hungs' typology, there are other theories worth mentioning when discussing the different roles of the board.

2.2.7 Class hegemony theory

As described above, the managerial hegemony theory views the board as a "rubber stamp" for managerial decisions (Mace, 1971). In class hegemony theory, however, the board is viewed as a tool for the ruling capitalist elite(Zahra & Pearce, 1989). In this theory the board of directors acts on behalf of the ruling capitalist class.

They have a coordinating role with the purpose of ensuring control of the social and economic institutions (Zahra and Pearce 1989, Jonsson 2007). In the managerial hegemony theory, the CEO has the power because of the dispersed concentration of ownership. In the class hegemony theory the CEO, however, represents the capitalist elite, not management. Thus, the agenda is decided within the framework of the interest of these capitalist elite, not management. The role of the board is influenced by the concentration of ownership and the power and leadership style of the CEO (Zahra & Pearce, 1989).

2.2.7.1 Class hegemony theory; board role and board tasks

The role of the board from this perspective has been described as ceremonial(Zahra & Pearce, 1989). The tasks performed are defined as coordinating actions by the company they serve and ensure capitalist control of the elite they represent(Jonsson, 2007).

2.2.8 The legalistic perspective

According to this perspective, developed by Zahra and Pierce (1989), the function of the board is to carry out its legal responsibilities. Important functions in this context are to represent the interest of the shareholders, select and replace the CEO, offer council and advice to top management, but also serve as a control mechanism by monitoring managerial and company

performance. In many ways, the legalistic perspective may well fit within the institutional theory. However, in the legalistic perspective, the role of the board is dominated by the influence of State law, not the environment in general. According to this perspective, the function of the board can be defined as compliant (Zahra & Pearce, 1989), as boards contribute by carrying out the legal responsibilities vested upon them.

2.2.8.1 The legalistic perspective; board role and board tasks

Based on the description given above, the role of the board can be understood within the framework of the institutional theory but is important in its own right and should be understood from a legal standpoint (Jonsson, 2007). The maintenance role of the board can be used to explain the expected tasks of the board, indicating that the board performs tasks mainly related to its monitoring function.

2.2.9 The contingency aspect of corporate governance

The contingency perspective is relevant both in terms of discussing content and context of corporate governance. This perspective is based on the contingency theory which can be traced back to Lawrence and Lorsch (Lawrence & Lorsch, 1967). From this perspective, it is assumed that there is no “best way” to run an organization. The company fits its structure and processes to its environment. A common understanding of this perspective is that the context in which the company operates (the market, the industry, etc) will influence the system and the content of corporate governance.

From a contingency perspective, companies are open systems where activities and goals of the companies are influenced by the environment in which they operate. The role of the board should be to contribute to the company reaching its goals. The board performs both a performance/directing role and a conformance/controlling role, where the performance role is connected with the task of setting a strategy for the company, and the conformance role of the board is connected with the task of ensuring that management conforms with the interests of the company, including the task of ensuring that decided strategy is successfully implemented (goals are met). This means that the conformance (or control role) of any board cannot be separated from the performance role of the board. However, the relative importance of these roles is contingent on the context in which the company exists.

2.2.10 Summary of the theories and implications for the research

As identified in this section, there are many theories explaining the different roles of the board. Hung's typology has been used to explain the role and tasks of boards according to the different theories. Within this framework, the linking role, the coordinating role, the control role, the strategic role, the maintenance role, and the support role were identified. Although the existing literature has tried different approaches when classifying board roles, such as those based on their relationship with management, most of the discussions have been related to what the different roles constitute in terms of tasks (Jonsson 2007). The most common ways to

categorise these tasks as control tasks, strategy tasks, or service tasks, which are represented to different degrees in several theories (Zahra & Pearce, 1989).

We have discussed these tasks in terms of what they constitute and find some ambiguity as to what roles the board performs and the definition of those roles (Heuvel et al 2006). The strategic role of the board is especially difficult to define as the tasks the board performs may be related sometimes to a monitoring role, and sometimes it can be related to the servicing tasks that the board performs.

Although ambiguity exists, these different tasks, whether they are defined as control tasks, strategy tasks, or service tasks, can be labelled as either monitoring or directing. According to the agency theory, the main role of the board is to monitor management on behalf of shareholders. The institutional theory also identifies tasks related to monitoring as important. The board acts to maintain the relationship between the company and its environment, and performs tasks to ensure the company reaches its goals. The class hegemony theory also refers to the monitoring role as one of the tasks they perform which is related to ensuring capitalist control of the stakeholders they represent.

The stewardship theory refers to the directing role of the board, as the conflicting goals between the shareholder and management are aligned, and the monitoring role of the board thus becomes redundant (Davis, et al., 1997). The resource dependency theory also identifies the directing role of the board. The board acts on behalf of the company to secure needed resources and to protect the company against threats and uncertainty. The managerial hegemony theory views the board as a rubber stamp, legitimizing the decisions made by management (Mace, 1971). In this context they have a directing role. The class hegemony theory describes the board's role as ceremonial, where the board's role is defined as coordinating actions by the company they serve and ensuring capitalist control of the elite they present; thus their role can be related to both the monitoring and directing role.

The identified roles can be summarized in the following table, where the theories are identified through their primary dimension:

Table 2.2.1 Categorization of boards' main roles according to corporate governance theories

Theory/Role	Monitoring	Directing
Agency	X	
Stewardship		X
Stakeholder	X	
Institutional Theory	X	
Resource Dependency		X
Managerial Hegemony Theory		X
Class Hegemony	X	(X)
Legalistic	X	

No theory has been developed that captures the several different roles boards have, although some work has been done in this direction (Zahra & Pearce, 1989). It is assumed that boards perform, to various extents, tasks which can be identified as having either a monitoring or directing role. Board evaluation is related to assessing the tasks boards perform. As no theory exists which incorporates all the different roles boards have, and the tasks they perform to that end, arguments for a multi-theoretical perspective when performing research on boards can be put forward and will be used when performing this research.

2.3 Introduction to behavioural theories

As identified in chapter one, the responsibilities of the board have changed during the last four decades. The main incident affecting the responsibilities of the board was the financial scandals represented by Enron and the like. From section 2.2 we identified the different roles and tasks of the boards and we saw that the corporate governance theories deviate both in terms of the role of the boards and the tasks they perform. However, the purpose of this research is to gain knowledge and understanding about board evaluation as a mechanism to enhance corporate governance. An important element is thus not only to understand why they perform board evaluation, but to gain knowledge of how they conduct board evaluations.

The underlying assumption here is that performing the task does not necessarily mean it enhances corporate governance or board effectiveness. How these tasks are performed is also an important element to consider. Assumptions about board evaluation follow the same argument. Although it can be argued that performing any board evaluation may contribute to board effectiveness (assuming conducting them does not have a negative effect), the degree of effectiveness will depend on how you perform the evaluation. There are several relevant behavioural perspectives when discussing board evaluations. Some behavioural theories can be used to explain behaviour of individual board members. Examples may be bounded rationality of board members (Hendry, 2005; Ocasio, 1999; Osterloh, Frey, & Frost, 2001), where the assumption is that the board members' rationality is limited by the information they have, cognitive limitations of their minds, and time limits. The concept of satisfying behaviour (Hendry, 2005) explains why actors tend to accept choices or judgments that are "good enough" based on their most important needs, rather than searching for optimal solutions. Although recognizing that behaviour of individual board members will influence the board collectively, a focus on behavioural theories related to the board collectively is chosen in this research. The reasoning behind this is that the board consists of a group of equals who meet "collegially around the boardroom table under the neutral guidance of the chairman, to agree on the future directions of the business and ensure its prudent control" (Garratt, 2007b:66). Within this context, any director has equal liability for the board's actions. It is the board as a group that makes decisions. Although acknowledging that excluding the behaviour of individual board members will limit the research, this element is left to future research on board evaluations. A common approach when discussing boards as a group is to discuss them in terms of teams. When doing this, there are two important factors to consider. First of all, boards seldom work as

teams. They spend little time together, they prepare individually etc. However, they meet challenges which need to be faced by the board as a team (Huse & Sølund, 2009). In this context, it is important to discuss boards as teams. Several descriptions can be given about boards as teams (Furr & Furr, 2005; Huse & Sølund, 2009). A team is categorized as a group that works toward a common vision or purpose(s). They have the necessary expertise, and their interest and participation in the work are equal. The team uses a joint mutual working process, and they view themselves as mutually accountable for their actions. The team production theory (Blair & Stout, 1999) can be used to explain the board from a team perspective. The assumption here is that companies are viewed as a nexus of team-specific assets (Gabrielsson, Huse, & Minichilli, 2007). These assets are invested by the shareholders, managers, employees and other stakeholders who hope they will profit from the team production. The resources used in the production are information, talents, skills, and visions. According to the team production theory, the productivity of any board member is greater as the result of interaction with other board members (Huse & Sølund, 2009). Boards working as a team may thus produce greater productivity than what could be achieved by the individual board members, as they complement each other rather than substitute each other (Gabrielsson, et al., 2007). The assumption behind this theory is that the board represents stakeholders because it adds value, assumes unique risk, and possesses strategic information which is relevant for the operation of the company and it is the joint knowledge of these different constituencies that are important (Gabrielsson, et al., 2007; Kaufman & Englander, 2005). As noted by Gabrielsson et al (2007), this theory is a sharp contrast to the views of corporate governance identified within the shareholder supremacy model suggesting that board members represent shareholders and thus argues for the need for independent directors. The team production theory, on the other hand, argues that truly independent directors may risk the contribution of the board of directors as this may lead to lack of involvement and lack of company-specific knowledge and understanding. This independence may be damaging to the long-term creation of value (Huse, Gabrielsson, & Minichilli, 2007; Kaufman & Englander, 2005). From the team production perspective, the board is thus seen as teams that are knowledgeable and cooperative, and the purpose of the team is to lead and coordinate the activities of the company (Gabrielsson, et al., 2007). Derived from the team production theory, it is possible to argue that board dynamics is an important element to consider as this will influence group performance. Board dynamics may be influenced by several elements. One element is the interaction between board members, but also interaction between the board and its members and various other actors (Huse, et al., 2005). Interaction is influenced by trust within the group and between the group and other groups of actors. It can also be influenced by the relative power within the group and other stakeholders. It is further argued that group dynamics are dependent on the ability of members to influence the group and emotions within the group and between the various groups (Huse, et al., 2005). Another important element of board dynamics is the leadership of the boards. The leadership role of the Chairperson is different to that of other leaders, such as the CEO (Gabrielsson, et al., 2007). The Chairperson has some additional tasks compared to other board members, and he may settle decisions by means of a double vote. However, although assuming additional

responsibilities, he does not have greater authority, such as the CEO. He is still part of a team with equal colleagues. In the context of group dynamics and group effectiveness, it can thus not be assumed that responsibility is left with the Chairperson. It is the responsibility of the group collectively (Gabrielsson, et al., 2007). They go on to argue that the responsibility of the Chairperson in this context is to motivate directors to work together and to make collective contributions, and that the Chairperson should perceive the board as a group, not as a set of individuals. Implemented norm and structures will also influence the board dynamics. Structures in this context can be related to the board meeting, such as the length and frequency of the board meeting, who is present at the board meeting, the relationship between the board and the management, how the agenda of the meeting is prepared and presented, and also how the minutes of the meeting are developed. Norms can be both formal and informal and may refer to expectations about board meeting attendance, preparation for meetings, board members' values, corporate cultures and ethical standards (Gabrielsson, et al., 2007).

Through the discussions of elements related to boards as teams, team production theory and board dynamics, elements of the behavioural aspect of corporate governance have been introduced. While the traditional theories of corporate governance identify what tasks boards perform, the behavioural theories introduce another dimension of corporate governance, namely how the tasks identified are performed. To meet the purpose of this research, both corporate governance theories and behavioural theories are included. The corporate governance theories operate on the grounds that they may explain why boards perform board evaluations.

The behavioural theories operate on the grounds that the additional dimension of how boards perform evaluations will add further knowledge about board evaluations in a corporate governance context. Both categories of theories are important in terms of their ability to provide explanation and they will contribute to our overall understanding of board evaluations as a mechanism to enhance corporate governance through board effectiveness.

The next section will discuss the concept of board effectiveness and discuss how board evaluations can be linked to board effectiveness.

2.4 The concept of board effectiveness

Corporate governance effectiveness has been discussed for many years. In the wake of different corporate failures and financial scandals, the installed regulations of governance were reviewed and revised, and new recommendations developed. The main purpose of these regulations was to reinstall investors' confidence (Levrau & Van den Berghe, 2007)

It is reasonable to assume that any corporate governance measures installed have the ability to enhance effectiveness of corporate governances. Many of the introduced regulations are related to the work of boards, and are thus assumed to have the ability to enhance board effectiveness. The question then becomes, what is board effectiveness, and how can it be measured?

2.4.1 Board accountability

A useful way of discussing board effectiveness is in terms of board accountability. Accountability is about “doing what you are supposed to do” (Huse, 2007c:35). An important element of accountability is thus defining expected standards by which board effectiveness can be measured. In this context, it is possible to link board accountability with effectiveness by assuming that the expected tasks boards perform are aligned with the expectations of the stakeholders. Actual task performance of the board can thus be compared to expected task performance to determine effectiveness (Huse, 2007c).

When discussing accountability it is useful to divide this into 2 levels:

Accountability at board level

Accountability at individual level

2.4.1.1 Accountability at board level

It is most common to view accountability in terms of the board as it is the board collectively that is responsible to the company, the owners, and other stakeholders. Accountability at board level can thus be seen as the board’s responsibility towards stakeholders in general. In a corporate governance context, the concept of accountability is often discussed in terms of expected tasks and actors. The expected role of the board and the tasks performed as a consequence of these roles were identified in section 2.1. The tasks of the board were identified there as being related to the monitoring and the directing roles of the board. Supplying the normative ground by which these expected tasks can be measured may be difficult however, as we then need to understand, identify and materialize the different expectations. A common perception of accountability is to view it in relation to the owners. The board is elected by the owners and are thus accountable to them (Cadbury, 2002; Garratt, 2007a). If we assume that the expectations of the owners have been identified, it is possible to make an assessment concerning to what extent the board’s work meets these expectations.

Some stakeholder’s expectations (such as Government and the financial market) can be identified through laws, such as the Public Companies Act, regulating public limited companies in Norway, or the implemented Code for Practice of Corporate Governance. Effectiveness of the board in this context may thus be easier to measure, as conformance to the laws and the codes can be viewed as measures of board effectiveness. However, there is often discussion with regard to what degree conformance can be viewed as board effectiveness. “Ticking boxes” is an expression which is often used by academics. This indicates that the company (and the board) has conformed to the expectations identified in these laws and regulations, without necessarily meeting the expectations of other stakeholders, such as the owners or other stakeholders.

The normative ground by which to link performance to expectations of other stakeholders, such as customers or the society in general, is difficult because the expectations have not been stated in operable and measurable terms. However, a solution to this problem can be to view

accountability from a company-perspective. A common view is that, although the board is accountable to the shareholders as they have elected them, any board owes its duty to the company (Cadbury, 2002). By viewing accountability from this perspective, and applying a contingency approach as identified in section 2.2.9, it can be assumed that stakeholder expectations are incorporated and operationalized in companies' goals. This will be further developed in section 2.6.

2.4.2 Individual accountability

When discussing accountability, it is also useful to discuss it at the individual board member level. Accountability at this level is often viewed as board member responsibility. Board members are responsible towards the company through the board. As individual board members, they owe their duty to the board, and not specific groups of stakeholders. Individual board member's ability and willingness to use the information and the expertise they possess is an important element of board effectiveness in this respect.

2.4.3 Transparency as part of accountability.

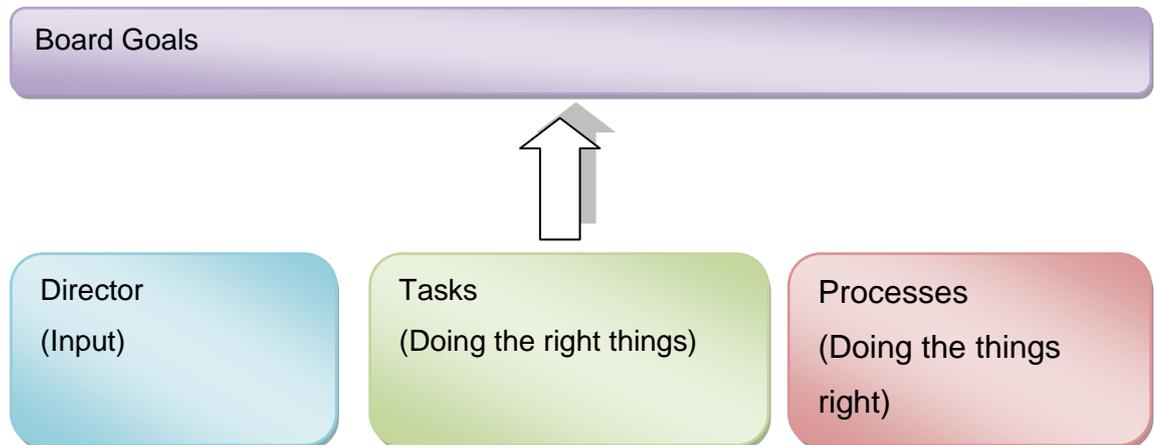
The board is vested with the power and trust to make decisions on behalf of stakeholders. As such, there should be an agreed and transparent process by which decisions are taken by the board. Transparency can enhance stakeholders' ability to make judgements about the decision-making process. Transparency is thus an important element of accountability, as this will enable the external stakeholders to make these judgements from a distance. The relationship between the board and the external environment is, however, viewed as difficult (Garratt, 2007a). There is a fine line between openness that will strengthen the relationship, and openness that will destroy it, as boards often handle information that is sensitive.

2.4.4 Accountability and board effectiveness

As seen from the above discussion, it is possible to link accountability to board effectiveness by assuming that the expected tasks the board performs are aligned with the expectations of the stakeholders. Actual tasks performance by the board can thus be compared to expected task performance to determine effectiveness. Further, there are two aspects of board effectiveness: conformance and performance. Conformance is related to the tasks boards do in order to meet laws and regulations. This is part of board effectiveness (Julien & Rieger, 2003), but may not be viewed as sufficient to meet the expectations of all stakeholders. Board effectiveness should thus be viewed in a broader context, meeting the expectations of all stakeholders, such as the owners, customers, suppliers, employees, government and other interested parties.

By using the company perspective as identified above, board effectiveness can be linked to meeting the goals set by a company and board effectiveness defined as ensuring that the directors and their defined tasks and processes contribute to adding value, thus enabling the company to reach the goals set.

Figure 2.4.1: Board effectiveness



As seen above, board effectiveness can be divided into three: directors, the defined tasks of the board, and the processes. The directors represent the input, and are elected based on specified characteristics. These characteristics can be linked to laws and regulations, but also to the company's needs or owners' expectations. An important element of board effectiveness is to have the right mix of people (Minichilli, et al., 2007a). The role and tasks of the board (or doing the right thing) will also be influenced by internal and external factors. The legal requirements define the minimum portfolio of tasks. Elements related to the business environment will also influence the tasks and these include where the company is in its life-cycle, and expectations of owners and other stakeholders (Demb & Neubauer, 1992). In relation to effectiveness, an understanding of whether the board is doing what it is supposed to do is important. Processes relate to "doing the things right" and these relate to how boards solve the identified tasks. There are several elements related to this. One element relates to how the board structures its work and might include elements such as the meeting structure, the information they receive, how the board organizes its work in board sub-committees, etc. Included here are elements related to how the board interact as a decision-making group.

2.5 Board effectiveness – previous research and models used

According to Demb & Neubauer (1992), board structure is one of four mechanisms of accountability where the three others are ownership, regulations or codes, and direct social pressure. As identified in section 2.4, board structure is an element of board effectiveness. Much of previous research related to board effectiveness has tried to show the relationship between composition of boards and effectiveness (Finkelstein & Mooney, 2003; Gabrielsson &

Huse, 2005), one possible reason being that board structure can be observed. Typical for this category of research, financial indicators are used as a proxy for effectiveness. The common terminology used for this approach of research is “the usual suspects” (Gabrielsson & Huse, 2005). Most of these studies are quantitative, relying on secondary data. Some of the research performed within this category is related to structural elements of the board, such as the use of independent directors, the use of board sub-committees, and CEO duality. Research conducted is inconclusive regarding the effect of these structural elements of boards (Baysinger & Butler, 1985, 1989; Beatty & Zajac, 1994; Boyd, 1994; Daily & Dalton, 1992; Dalton, et al., 1998; Filatotchev, et al., 2007; Turley & Zaman, 2004). Other studies claim that other factors than independence and CEO duality are important, such as the perspective and level of experience board members bring to the organization (Beatty & Zajac, 1994; Carpenter, 2002; Carpenter & Westphal, 2001; Filatotchev, et al., 2007). Within this research, board size, demographic characteristics and business links outside the focal firm are more important than the structural board characteristics (Carpenter & Westphal, 2001; Filatotchev, et al., 2007). Although some research finds evidence that board size is positively correlated with firm performance (Dalton, et al., 1999), others find that too large boards increase the agency problem, as the board becomes symbolic and less part of the management process (Hermalin & Weisbach, 2003). Some studies argue that the quality of the board members in terms of their job experience is an important factor with regard to enhancing board effectiveness. These studies argue that diversity leads to more efficient boards, and thus better performing companies (Baysinger & Butler, 1985; Baysinger & Hiskisson, 1990; Carpenter, 2002). Others have tried to link demographic characteristics, such as age and tenure of board members, to company performance. The empirical evidence presented is, however, limited (Filatotchev, et al., 2007). Some research finds evidence for a connection between length of tenure and greater rigidity, increased commitment to established practices and procedures, and increased insulation against new ideas (Boeker, 1992; Finkelstein & Hambrick, 1996). Other studies associate longer tenure with a richer stock of remembered information relative to board members with shorter tenure (Hambrick & D'Aveni, 1992; Hambrick & Mason, 1984).

Evidence that board interlocks have a positive effect on boards in terms of effective capital acquisition has been presented (Filatotchev & Toms, 2003; Mizuchi, 1997). Further, interlocking is associated with long-term survival of companies (Carpenter & Westphal, 2001), as these boards import knowledge from the outside. Such knowledge may be strategic expertise, or important information for the company. The perceived risk of including new board members from existing board members' networks is that boards may become less independent, and executives may re-enforce their power within the organization (Mace, 1971; McNulty & Pettigrew, 1998). The limitations of these studies are, however, that they measure board effectiveness based on the board's form, not its performance.

Other researches use intermediate measures, such as board processes, to measure company performance (Zahra & Pearce, 1989). The focus in this research model is the relationship between the process of the board and company performance. The argument behind this model is that board process, not only composition, is important. The focus of this category of research

is to look into the role of the board in terms of tasks and purposes (Zahra and Pearce 1989, Johnson et al 1996, Forbes and Milliken 1999, Westphal and Carpenter 2001, Hillman and Dalziel 2003, Nicholson and Kiel 2004). Common for these studies is their qualitative approach, using interviews, focus groups, case studies, or observation (Huse, 2005b). The assumption behind these studies is that although formal regulations and policies are elements necessary to enhance effective corporate governance, research into the board processes and the relational dynamics between the board members should be investigated in order to fully comprehend the board as a corporate governance mechanism. It is argued that while board structure conditions board effectiveness, it is the behavioural dynamics of a boards, and the relationship between the board members that will determine board effectiveness (Roberts, McNulty, & Stiles, 2005). The processes inside and outside the boardroom will have an effect on board-level outcome and firm-level outcome, and thus are an important factor when considering the board as an effective corporate governance mechanism (Pettigrew, 1992). These studies take the perspective that multiple corporate governance theories must be applied to fully comprehend board behaviour. Research within this category focuses on access to information and knowledge about the business and the power of this. Some research draws attention to information sharing and its potential influence on board effectiveness, such as the board meeting agenda, strategy “away days” and the process and conduct of board meetings (Filatotchev, et al., 2007). Other studies focus on the importance of trust between board members. These studies suggest that “social ties and interactions between the CEO and independent directors may enhance mutual trust, intensify advice-seeking activities of executives, and reduce defensive and political behaviour on board” (Filatotchev, et al., 2007:24) referring to studies by (Lorsch & MacIver, 1989; Mace, 1971; Westphal, 1999). An important aspect is the trade-off between trust and distance. A certain distance is necessary to perform the control function (Dalton, et al., 2003). A survey in Norway which included how board members perceived board processes (Sellevold, Huse, & Hansen, 2007) presented evidence that board members of listed companies think there is a high level of trust between board members when conflicts are to be resolved. Board members are concerned about preserving professional and personal relations with other board members, while Chairpersons are more concerned about preserving the professional relationship than personal relationships with other board members. The study shows that board meeting are seldom arranged as social events, or “away-days”.

One of the problems with much of the research conducted and presented here is the assumption that there is a linear relationship between board composition, board processes and board effectiveness. Such a relationship has not yet been proved.

Other models have been developed to add dimensions to the input-output equation mentioned above. These models try to add dimensions such as processes and contingencies in addition to input and output. These models include the integrated model of roles and attributes (Zahra & Pearce, 1989), the decision-group model (Forbes & Milliken, 1999), the board intellectual capital framework (Nicholson & Kiel, 2004), and the integrated board behaviour model (Huse, 2005b).

2.5.1 Summary and implication for this research

As seen in this section, given the relative short “life” of the field of corporate governance, relatively much of the previous research related to effectiveness of implemented corporate governance measures is related to the board of directors. Much of the previous research has been conducted within the framework of the Agency theory measuring board effectiveness in terms of the “usual suspects”. The main reason for this is the perception of boards as a difficult object for research. A term like the “black box” is a common characteristic of the board. Other models have been developed to capture the different elements of boards’ work, such as processes and contingencies. These models are conducted within a multi theoretical framework, using different methodologies. Approaches to model building deviate between scholars, and there is little agreement between these scholars regarding the elements within the different models (Jonsson, 2007). The purpose of section 2.5 has been to identify previous research related to board effectiveness. By reviewing some of the research conducted, the different approaches used and the existing ambiguity regarding corporate governance research has been discussed. This discussion is important in terms of understanding the approach used in this research. The purpose of this research is to increase our understanding of board evaluations in a corporate governance context. The assumption on which this research is conducted is that measures introduced in corporate governance which involve the board have the ability to increase board effectiveness. However, it is not the purpose of this research to measure the extent to which board evaluations increase board effectiveness.

The research is exploratory, as no previous research has been conducted to increase our understanding of how board evaluation fits into corporate governance literature and its discussions about board effectiveness.

This research is designed as case studies with the possibility to generate hypotheses that can be used in future research on causal relationship(s) between board evaluations and board effectiveness.

In the next section, and following the arguments put forward in section 2.4 and 2.5, a model is presented and discussed which can illustrate the link between board evaluations and board effectiveness.

2.6 Model to assess the ability for board evaluations to contribute to board effectiveness

The model used in this research builds on the definition of board effectiveness presented in section 2.4.4, “ensuring that the directors, their defined tasks and processes contribute to adding value, enabling the company to reach the goals set” (Demb & Neubauer, 1992).

In this research, a model is developed, taking into account that board effectiveness consists of three elements, the directors, the tasks, and the process. As indicated by Huse (2007b), in order to make any assessment of effectiveness, one needs expected standards, and a mechanism.

Within this context, it is possible to make some assumptions. If we assume that the goals of the company are the standard, a board evaluation can be used to assess to which degree the board

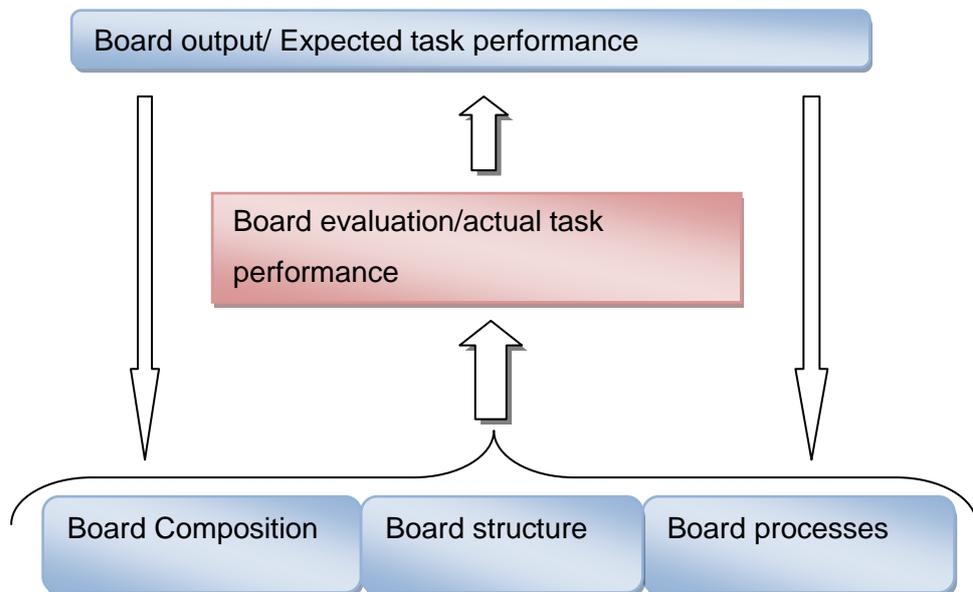
contributes to the goals being met. One important aspect in this assumption is that the board's expected tasks will be a result of the goals of the company, and thus will be the standard by which conclusions about effectiveness can be made.

It is acknowledged in this assumption that companies deviate in terms of their goals, as the goals of a company are contingent on a lot of factors, such as their purpose, the market, the owners, etc. It is also acknowledged that the different tasks performed by the board will deviate accordingly.

Having decided on the standard by which the board should be assessed, it is possible to make assessments about board effectiveness by comparing actual performance against expected performance.

In order to make an assessment of board effectiveness, composition, structure and processes must be linked to expected performance as illustrated in figure 2.6.1 below. Board evaluations in this context can be used to assess whether actual performance meets expected performance, and thus can be a mechanism to assess board effectiveness.

Figure 2.6.1: Board evaluation as a mechanism to assess board effectiveness



As can be seen from the above figure, we have now linked board evaluations to how we defined board effectiveness in section 2.4.4, “ensuring that the directors, their defined tasks, and processes contribute to adding value, enabling the company to reach the goals set” (Demb & Neubauer, 1992).

The important assumption that an assessment of effectiveness can be performed by linking actual performance to expected performance was put forward (Huse, 2007c). Another important assumption is that, from a contingency perspective, it can be assumed that the expectations of stakeholders are incorporated in a company's goals. As shown in the figure above, an important influence on task performance is the directors, representing the input to the process.

Board structure illustrates the formal structures of the board and how they support the board in fulfilling its duties. This could be meeting structure, board size, board committees, leadership of the board etc. Board processes represent the internal workings of the board of directors, an important influence on how board perform its tasks. Board evaluation should be an assessment of how the board performs its tasks by comparing actual tasks with expected tasks. Board composition, board structure and board processes are important elements of how the board performs tasks and why evaluations should be linked to these elements. As illustrated, the different elements are dependent elements and cannot be viewed separately.

However, as no previous research has been conducted within the context identified above, a deeper understanding of how companies perform board evaluations, and of elements influencing the process, is needed before any relationship between board evaluation and board effectiveness can be made.

In the next two sections, the concept of board evaluation will be discussed. To understand board evaluations and how they can enhance corporate governance, it is important to view them at two levels.

The first level is the macro level where board evaluations are viewed in a broad context. This will give an understanding of **why** board evaluations have been implemented. However, before any assessment about whether board evaluations contribute to enhanced corporate governance, we need to get a better understanding of **how** board evaluations are performed. Therefore, board evaluations need also be viewed at a micro level, by looking at the process and elements of the board evaluation.

2.7 Board evaluations; definition and rationale for them.

Before discussing the rationale behind board evaluations, it may be useful to define board evaluations.

2.7.1 Definition of board evaluations

At the outset, it appears clear what board evaluations are. However, the concept of board evaluation is often used when discussing two distinct things: assessments in which the board is the object of evaluation, and evaluations in which the board is performing an evaluation of someone else. Board evaluations in this context are evaluations where the board and its individual directors are the object of evaluations. (Kiel & Nicholson, 2005; Leblanc, 2005c; Minichilli, et al., 2007b). Such evaluations can be performed by the board itself, or by others. Thus, a board evaluation can be an evaluation of the board collectively, or its individual members. It can be performed by the board itself, or someone else. However, it is assumed that the board members are involved in terms of giving input. An important element is that the board is the subject of the evaluation. Evaluations performed by the board or others on behalf of the board but where the subject is not the board, are not defined as board evaluations. One

example of this might be evaluation of CEOs and management, products and markets, human resources, accounting and finance, manufacturing and technology, and so on. These are not defined as board evaluations. (Kiel & Nicholson, 2005; Leblanc, 2005a; Minichilli, et al., 2007). The boundaries between what is defined as board evaluation and what is outside the definition of board evaluation is illustrated below in table 2.7.1:

Table 2.7.1 Definition of board evaluation

WHAT is evaluated	WHO is evaluating	
	The board and individual board members	Others (Nomination Committee, External consultant etc)
The Board and individual board member	Board evaluation	Board evaluation
Others (management)	Board's evaluation – not within the definition of board evaluation	Evaluations performed on behalf of the board, not within the definition of board evaluation

Board evaluations are often viewed as a horizontal evaluation as opposed to vertical evaluations (Ingley & Van der Walt, 2002, 2005). However, it can be argued that this assumption presupposes that the board members evaluate themselves, and not by someone with the ability to influence their board membership as illustrated in table 2.2.

Although the literature often use terms such as “appraisal” or “assessment” as substitutes for evaluations, it is assumed they mean the same.

2.7.2 Rationale behind board evaluations, general perspectives

The objective of any assessment, whether it is individual or as a body, is the same: to learn from past experience (Cadbury, 2002). Evaluations of the board collectively are important, as board effectiveness depends to a great extent on how the board members work together.

Board evaluations will enable the board to answer questions both related to individual performance and board performance, such as how well the board fulfils its conformance and performance role, and what may be done to enable the board to fulfil the role better (Cadbury, 2002). He goes on to argue that individual assessments of directors are important because board member not contributing will inevitably contribute to diminishing the value of the board as a whole.

2.7.3 Rationale behind board evaluations – in a corporate governance context

It can be argued that board evaluations may be defined as a recent development in a corporate governance context, given that they became recommendations of the different Codes that have mushroomed during the last decade. However, they have been part of the corporate governance discussion in the last two decades. As early as 1994, The Blue Ribbon Commission published the report, “Performance Evaluation of CEOs, Boards and Directors, followed by the

report "Board evaluation: Improving Director effectiveness" in 2000(Long, 2006). The Toronto Stock Exchange Committee on Corporate Governance included in 1995 a paragraph recommending that every board or director should implement a process in which the board, its committee and the individual directors should be assessed regarding effectiveness (Toronto Stock Exchange, 1995). Other Codes have also implemented a recommendation about performing board evaluations, such as the Combined Code in UK, the OECD principles on Corporate Governance, or the Norwegian Code for Practice of Corporate Governance. In fact, most prevailing European Codes developed for listed companies recommend that board evaluations are performed. Although codes deviate in terms of the recommended actions, they all recommend that evaluations should be performed regularly.

The rationale behind implementing board evaluations in the different Codes for Practice of Corporate Governance is based on their ability to contribute to board effectiveness (Berg, 2007). Much of the literature discussing board evaluation discusses the rationale for introducing board evaluation in terms of increased accountability, a demand initiated by increased shareholder activism (Long, 2006; Minichilli, et al., 2007a; van der Walt & Ingley, 2001). Long (2006) argues that the call for increased accountability can be traced back to dissatisfaction among shareholders concerning business practices and company directors (Tricker, 1999). These shareholders increasingly demand that boards demonstrate leadership and control (Kiel & Nicholson, 2005) In this context it may be assumed that the introduction of board evaluations would enable the shareholders to better quality assure the decision-making boards make on behalf of them. An important assumption is made here. Shareholders are viewed as external to the board (Huse, 2007c). An important aspect of this increased demand, it is argued, is related to the increased compensation of board of directors as a consequence of their positions becoming more demanding over the past few years. Investors want to know what they are getting in return for the money these directors are paid (Conger, Finegold, & Lawler, 1998). Others argue that external participants in general, such as institutional investors regulators and other external participants are the driving forces behind the demand for increased accountability, and thus the introduction of board evaluation(Kiel & Nicholson, 2005; Minichilli, et al., 2007a).

Sroufe (2005) argues that the board evaluations for companies listed on the New York Stock exchange were implemented as a trade-off. It was a choice between the board losing control of the nomination and election process and performing board evaluations. By introducing board evaluations, it was expected that the board of directors would be self-policing. It is also suggested that introduced governance reforms, and thus board evaluations, should be regarded as an attempt to enhance board performance and investor confidence (Roberts, et al., 2005). These objectives and the ability to demonstrate leadership can be achieved through board evaluation (Long, 2006).

2.7 4 Benefit of board evaluations

The arguments for board evaluations can be divided into benefits for the external stakeholders and benefits for the board.

2.7.4.1 Benefit for external stakeholders

Some argue that performing board evaluations can result in better ratings, and thus cheaper funding. Schultz (2009) argues that institutional investors, such as CalPERS, are making clear that board evaluations are a critical part of corporate governance. Rating agencies, such as RiskMetrics/ISS, score public companies higher on two counts of corporate governance: first, if a board conducts an annual board evaluation and, second, if a board conducts annual individual director evaluations. (Shultz, 2009)

A survey performed by McKinsey & Company and Russell Reynolds shows that the quality of directors is a significant factors when institutional investors make investment decisions (Conger & Lawler, 2002). An individual assessment can give such information. Another argument is the argument that effective boards manage themselves (de Klyver, 2009). This includes focusing on performance and regular reviews of board effectiveness. It also includes building the board as a team, with the right skills and experience, including giving the directors the opportunity to fulfil their role. Performing board evaluations will demonstrate to external stakeholders that the board is committed to improving performance and thus helps the board demonstrate board effectiveness. Furr (2008) argues that board evaluations are important to increase transparency between the board and stakeholders. Board evaluations are useful to give stakeholders the possibility to observe what directors pay attention to, how they do their work, and how the board prepares itself to meet future demands. Evaluations thus have the ability to increase confidence between the company and its environment.

2.7.4.2 Benefit for the boards.

Cadbury (2002:44) argues that “it is necessary for boards to address this issue to maintain their competitive edge and to meet the expectations of investors”. He thus seems to imply that board evaluations are something boards themselves need to initiate as professionals. A much used argument for board evaluations is related to the fact that these evaluations can clarify the individual and collective roles and responsibilities of the board and its directors (Conger, et al., 1998; Graf, 2007; Julien & Rieger, 2003; Kazanjian, 2000; Leblanc, 2005c). It is further argued that the board evaluation can improve the relationship between the board and the management (Conger, et al., 1998). Other benefits are improved decision-making and delegation of work, enhanced communication and operation, in addition to improved leadership and teamwork (Long, 2006).

2.7.5 *Resistance towards board evaluations*

Most of the resistance to board evaluations can be characterised as board members’ resistance. Some of the arguments used are the fear of operational disruption, board dysfunction and individual humiliation and exposure (Long, 2006). Board evaluations can be time consuming. In addition they can undermine boardroom collegiality and thus the board as a team (Conger & Lawler, 2002; Graf, 2007; Kazanjian, 2000). It is also argued that board

evaluations could drive away good candidates who feel they have already proven themselves, and that the board does not spend enough time together to make an accurate assessment (Conger & Lawler, 2002). Some also argue that the resistance against board evaluation is the lack of empirical evidence between good corporate governance and company performance (Kazanjian, 2000; Long, 2006), where the argument is that the financial performance of companies currently not performing board evaluations is good (Kazanjian, 2000).

What can be seen from the above discussion is that, although board evaluations are regarded positive for external stakeholders and give them the ability to observe the board from a distance, the major resistance against board evaluations can be found within the board itself. The gap between stakeholders in how they perceive board evaluations and whether this gap will influence how the board evaluations are performed is an interesting element which will be discussed further in section 2.9 under research propositions.

One important aspect of board evaluations and their ability to contribute to board effectiveness is to discuss the board evaluation process. This is done in section 2.8.

2.8 The process of board evaluation

As identified earlier, the overall assumption that any corporate governance measure introduces is its ability to enhance corporate governance. This assumption is also made regarding board evaluations. It has also been established that board effectiveness may be linked to accountability and transparency. Further, it was assumed that any assessment of board effectiveness should be linked to stakeholders' expectations. The previous sections have looked at the concept of board evaluations at a macro level, with the purpose of identifying the rationale of board evaluations in a corporate governance context. This section identifies and summarizes some of the existing literature on the process of board evaluations, the "how" of board evaluations. The literature on the process of board evaluation can be categorized into three areas. The first category is the practical literature, focusing on the importance of board evaluations and how they should be done (Gulli, 2007; Jarodd & Tellefsen, 1993). The next category is the normative literature, represented by the Codes for Practice on Corporate Governance (Financial Reporting Council, 2003; NUES, 2009). The main characteristics of this literature are that it recommends that board evaluations are done, but less guidance concerning what they are, and how they should be performed is given. The last category of literature is the academic literature. This category of literature takes a broader view of board evaluations, describing what board evaluations are, the different elements of a board evaluation, how they should be conducted, and the possible effects of them. This literature can also be divided in two: the literature focusing on the different elements of the board evaluation, and the literature focusing on the board evaluation as a system combining different elements together.

Most of the existing academic literature on board evaluations is conceptual, and it focuses on different elements of a board evaluation process. The literature review in this research is thus somewhat different than in research where extensive research has been conducted previously. The purpose of the literature review in this research is to use the existing literature in building the framework for collecting data, but also to build a framework for the development of a model

of board evaluation for Norwegian listed companies. Section 2.8.1 to 2.8.8 will discuss these different elements of the board evaluation process identified from the conceptual literature on board evaluations. It will discuss the elements in terms of content and some of the factors influencing the choices made in deciding on the process of board evaluation. The existing academic literature is built on the normative literature on board evaluations. It can thus be assumed that the normative literature to a certain extent is included in the academic literature. However, the academic literature does not consider board evaluations in a Norwegian context, and the existing Norwegian Code for Practice of Corporate Governance is included in this literature, thus enabling the reader to contrast it with other existing academic literature.

2.8.1 Purpose of the board evaluation – “WHY”

The literature is somewhat unclear regarding the purpose of board evaluations.

To the extent purpose is discussed, it expresses the importance of setting a purpose, enabling the board to decide on objectives against which the board can be measured (Conger, et al., 1998; Conger & Lawler, 2002; GCGF, 2008). From the literature discussing purpose, it can be identified that decisions about purpose are important in order to identify and meet the expectations of stakeholders, but also in terms of developing a process which will contribute to the purpose being met. Milligan (2006) discusses the importance of deciding on a purpose for the board evaluation which is within the overall value system of the company, without giving any further definition of the value system. However, it may be assumed that the important argument in this context is that **a** purpose should be decided on, and not **what** the purpose might be. Minichilli (2007) also views the purpose of board evaluations in a wider context, and categorizes the purposes into external and internal. Board evaluation with an external purpose should satisfy external requirements, such as the Codes or law requirements. If the purpose of the evaluation is related to changing the conduct and behaviour of the board in performing its task, the purpose of the board evaluation is categorised as internal. Kiel and Nicholson (2005) use another terminology for categorisation of the purpose. They divide the purposes into corporate leadership, and problem resolution. If the purpose is to demonstrate corporate leadership, the process of board evaluation is not initiated by any specific incident, but by the general expectations stakeholders have regarding board performance. The former thus relates to boards' ability to meet the expectation of stakeholder by demonstrating commitment to enhancing corporate governance. In the latter context, the board evaluation is initiated to resolve an existing problem, such as a problem with board dynamics, board competency etc. However, in both situations, the initiative to perform board evaluations comes from the board itself. Although different approaches can be identified regarding the purpose from the Kiel (2005) and Minichilli (2007), they both agree that any board evaluation process should start with identifying the purpose and objectives of the board evaluation (Kiel & Nicholson, 2005; Minichilli, et al., 2007a).

Several advantages of deciding on a purpose can be identified in the existing literature. One advantage is that it will possibly increase boards' awareness of the criteria by which an

assessment of board effectiveness can be made (Milligan, 2006). Different stakeholders have different expectations, and board evaluations can be used to meet these different expectations. The process of board evaluation should thus start by identifying the different expectations of these stakeholders to establish the overall purpose of the evaluation. Identification of a clear purpose will also enable the board to identify what they want to achieve with the board evaluation and to make decisions regarding the design of the evaluation, such as the scope of the evaluation, who will be involved, how much time and money to allocate etc. In essence, identifying a clear purpose will make it possible to design a board evaluation system which will fit the purpose of the evaluation (Minichilli, et al., 2007b)

As can be seen from the above, several purposes can be identified. It becomes clear from the literature review that, to the extent that the literature discusses purposes of board evaluation, it is mostly concerned with the importance of deciding a purpose. The literature does not discuss the possibility for a board evaluation to have several purposes, or possible conflicting purposes. The only element identified in the literature that may be connected to this is the element of prioritizing purposes. Time constraints on board's experiences may be an argument for prioritizing between identified purposes. In this case, it is argued that boards need to attend to the identified areas most vital to the company. However, if the board needs to prioritize, the identified areas should be addressed in turn to ensure that they are all covered (Conger, et al., 1998).

Related to deciding on a purpose, the literature suggests some different approaches. One approach is to delegate the decision to a board committee such as a Corporate Governance Committee, or it can be decided by the Nomination Committee (Conger, et al., 1998; Kiel & Nicholson, 2005). Another possibility is to leave it up to an individual director, such as the Chairperson. The third being to let the Board collectively decide on the purpose and objective of the evaluation (Kiel & Nicholson, 2005). The existing literature, however, discusses this issue in general terms, and appears to assume that it is not important who decides the purpose as long as a purpose is decided. It is acknowledged by some authors that whatever approach is chosen, it is deemed important that the board collectively agree on the purpose set for the evaluation (Conger, et al., 1998; GCGF, 2008). In a Norwegian context, the involvement of the corporate governance committee or the Nomination Committee for identifying the purpose might represent some challenges. Both these committees are external to the board, which might represent some difficulties in identifying some of the internal purposes, or prioritizing external purposes at the expense of internal purposes.

The Norwegian Code of Practice of Corporate Governance (NUES), identifies the purpose of the evaluation to be an evaluation of the board "in relation to the objectives set out for its work" (NUES, 2009:37). What is meant by the objectives set out for its work is not specified.

2.8.2 Intended recipients of the board evaluation – "FOR WHOM"

Regardless of how the purpose of board evaluation is categorized, it can be assumed that the board evaluation is performed to meet some expectations and that the identified stakeholders

should be informed about the result of the evaluation. Most of the literature identifies stakeholders interested in the evaluation, such as institutional investors (Conger, et al., 1998; Conger & Lawler, 2002; Hoffman, 2003), regulators (Leblanc, 2005b-b) the rating agencies (Hoffman, 2003). However this literature discusses stakeholders' interest in general terms, without linking it to the evaluation process or addressing how such a result should be communicated.

In the literature addressing the process of board evaluation, this element is discussed in terms of two different stages of the process. Minichilli (2007) view this element as part of deciding on a purpose. In fact, it is considered to be the first element of the process, as the decision about "for whom" this evaluation is conducted will be the basis on which the purpose is decided. It is argued that the link between these two elements will enable the board evaluation to focus on the information these recipients want about the board of directors (Belcourt & Kluge, 1999; Cutting & Kouzmin, 2002; Huse & Rindova, 2001). Although there is focus on the important link between expectation and purpose, how the result of the board evaluation should be communicated is not discussed. Others (Kiel & Nicholson, 2005) view this element of the board evaluation process as part of the follow-up of the evaluation result, indicating that the result, or a summary of it, should be distributed to the stakeholders for whom the result concerns, as identified by its purpose and objectives. If the board evaluation concerns internal board processes, the board result will be communicated to the board. If the purpose is to evaluate the relationship between board and management, the result should be communicated to both. If the purpose is to improve stakeholder relationships, the result may be communicated to "key customers, suppliers or other groups important for the board have continued success (ibid: 629). Although identifying several groups to which the result should be communicated, the trade-offs between transparency and communication of sensitive information is not discussed, nor the issue of possible objectivity issues if the result is communicated on a broad basis.

The Norwegian Code for practice of corporate governance identifies the owners as recipients, through the Nomination Committee. "The report should be made available to the Nomination Committee" (NUES, 2009:37). The companies are left with the choice of whether they want to give the evaluation result and its contents to someone else or not. The only comment regarding this issue is that "such a report will be more comprehensive if it is not intended for publication" (ibid: 37).

2.8.3 Object of the evaluation

Related to the object of the evaluation and within the framework of how board evaluation is identified in section 2.7, the literature identifies two levels of board evaluation: evaluation of the board collectively including its committees, and evaluation of individual board members.

The rationale behind evaluation of the board collectively is that it is the board as a group that will have the greatest possibility to influence board effectiveness (Cadbury, 2002). Boards are considered to be teams, and research on team effectiveness supports the argument that the

object of the evaluation should be the board as a whole (Conger & Lawler, 2002). One of the advantages identified within this context is the possibility it gives for individual board members to understand what is expected from them, both as individuals and as members of this team (Atkinson & Salterio, 2002; Cascio, 2004). In this context the board evaluation can function as an informal contract between the board members (Kiel & Nicholson, 2005; Minichilli, et al., 2007a). Kiel & Nicholson (2005) identify evaluation of the board as a whole as useful when introducing board evaluations to boards, representing a smoother introduction to something which is new to boards. Much of the literature discusses evaluation of individual board members. As individual directors represents an input to the board, the literature agrees that board effectiveness cannot be addressed thoroughly without evaluating individual board members (Conger & Lawler, 2002; Hoffman, 2003; Kiel & Nicholson, 2005; Leblanc, 2005b-b; Leblanc, 2009). Leblanc (2005) argued that effectiveness in a board's decision-making is a function of board-members' independence in mind, their competence, and their behaviour when sitting at the board table and therefore assessments of individual directors are an important part of any board evaluation. Cadbury (2002) argues that evaluations of individual board members are important from a value creation perspective, as board members not contributing will inevitably contribute to diminishing the value of the board as a whole (Cadbury, 2002). In general terms, the literature supports individual evaluations as they will give the opportunity to address certain issues in depth, such as board membership.

Through this, contribution to board activities and its strengths and weaknesses can be identified (Conger & Lawler, 2002; Kiel & Nicholson, 2005). This can benefit the companies as well as the individual directors. At a corporate level, individual evaluations can be linked to the need of the company in terms of ensuring that the board has the necessary competence to perform the identified tasks. They can also identify underperforming directors (Hoffman, 2003), enabling timely corrective action to be initiated. A survey performed by Korn-Ferry in the 1990s indicates that investors strongly felt that boards needed to be more aggressive in identifying underperforming board members due to the fact that board size is decreasing and this impedes increased demand (and reward). For the individual director, an evaluation process can clarify the expectations of the board members (Hoffman, 2003), and as identified above it gives increased possibility to utilise their strengths, in addition to addressing possible weaknesses. This will enable the board members to align their contribution and competence to the needs of the company as they shift. It can also function as a check-up or a reminder for the board members (Freeman, 2009). Individual evaluations can also enhance the relationship between the company and its stakeholders, demonstrating individual accountability of the directors (Conger & Lawler, 2002). Several options are identified as possible in order to close the gap between expected performance and actual performance; replacement right away, or no re-nomination are two options. A third option is to close the competency gaps by offering training programs. Others argue that non-performing directors should not be given a second chance if the underperformance is related to not attending meetings or if they show up unprepared (Graf, 2007). One element discussed under the category of individual evaluation is the assessment of the Chairperson. Although the Chairperson does not have any statutory position, it is argued

that his position is crucial to board effectiveness (Cadbury, 2002). Board leadership has been identified as the biggest corporate governance problem (Huse, 2005b), and it is argued that an evaluation of the Chairperson as part of the board evaluation can ensure that Chairperson contribution aligns with expectations.

As can be seen from the above, discussions about the object of the evaluation are closely connected to the discussion of board effectiveness, and it can be assumed that a decision about the object of the evaluation should be based on such considerations. However, others (Conger & Lawler, 2002) argue that decisions about the object to evaluate must be viewed in terms of the overall reward system of the company. If director pay is tied to the overall corporate performance through stocks and bonus plans, it is more important to evaluate the board collectively. The argument behind this is that individual directors tend to optimize their own contribution rather than contributing to team effort when evaluated individually, making it impossible to link performance and pay.

The literature discussing board evaluation process has a slightly different approach to deciding on the object of the evaluation. This literature discusses the object of the evaluation in terms of identified purpose. Kiel & Nicholson (2005) suggest the decision should be based on the different subjects' ability to influence the purpose set, whether this is the board as a whole, a sub committee, or individual directors. However, they acknowledge that cost/effect considerations should be included when the decision is taken. Minichilli (2007) acknowledges that different approaches to this are available, but focuses on the board collectively.

A factor not really discussed in the literature is the board sub-committees as the object of board evaluation. It can be argued that these committees are per definition a preparing body for the board, and thus do not make decisions on behalf of the board. In this context it may be assumed that an evaluation of the board collectively will include the work of these sub-committees. However, it can be argued that sub-committees of the board are considered increasingly important in relation to evaluation of board effectiveness, as more and more of boards' work is delegated to these committees. Given the composition of these sub-committees, considerations about sub-committees as objects of evaluation should also be done.

The Norwegian Code for practice of Corporate Governance recommends that both the board collectively and the individual board members be evaluated.

2.8.4 The content of the evaluation "WHAT"

Much of the previous literature on board evaluation focuses on the content of board evaluations. As identified by Kiel and Nicholson (2005), decisions about content are difficult but very important. Decisions about content are related to ensuring that the questions asked are addressing the core issues identified while at the same time being manageable in terms of meeting other different constraints such as time, money, and focus.

Some of the literature related to content address the topic in general terms and split it in two: whether it is an evaluation of the board collectively or an evaluation of individual board members. One category of this literature identifies elements that should be included in an

evaluation of a board and its members without identifying any framework against which the content could be measured (GCGF, 2008). Shultz (2009) argues that the content should meet four tests: it should be fast, taking a minimum amount of time to answer; it should be simple – easy to understand and use; it should be actionable – motivating action; and it should be targeted towards the recipients.

Another category in the literature suggests the use of existing frameworks when deciding on the content of the board evaluation (Kiel & Nicholson, 2005; Leblanc, 2005b-a). Typically, these frameworks are developed externally and will provide the board with a generally accepted tool useful when deciding on the content of the board evaluation. These externally developed frameworks may include existing developed best practice as represented by the different codes, guidelines developed by specific companies (Ingley & Van der Walt, 2002), or nationally accepted instruments, such as balanced scorecards or guidelines developed by specific professional bodies (Stybel & Peabody, 2005). Advantages of such an approach are that some of the existing frameworks are general, covering most of the areas of board work. Such an approach can also ensure that the board evaluation covers areas identified by the external financial market as important. A disadvantage is that these frameworks may be too comprehensive and thus might require adjustment by companies before use (Stybel & Peabody, 2005). This approach also assumes that existing frameworks -- such as the different codes -- are designed in a way that can make them useful when evaluating. Different codes are different in terms of their comprehensiveness and details, and may not be useful in this context. And last but not least, these frameworks are general and may not fit the company's situation. Developing the content internally gives scope for fitting the content specifically to the company (Minichilli, et al., 2007b). In addition, no one has better knowledge and understanding of the board than the board members themselves, which enables them to customize the content to the current and future needs of the company. However, there is a trade-off between knowledge and objectivity which needs to be addressed in these situations. And the issue of competency should always be considered. The literature related to individual board members focuses more on the importance of the different areas any evaluation should cover and the importance of a set criterion against which these areas can be assessed. Leblanc (2009) identifies areas to be evaluated to be competencies, skills, contribution to team work, and developmental needs of the individual board members. In this context, it is important that they are evaluated against set criteria, such as job descriptions (Conger & Lawler, 2002; Leblanc, 2009). It is argued that this approach identifies the uniqueness of every board member and that board evaluations for individual board members can be tailor made to suit different directors.

Conger and Lawler (2002) stress the importance of criteria that are observable when deciding on the content of the evaluation. The content of the evaluation should be related to behaviour both the individual directors themselves take into account, the uniqueness of the director, and dimensions others, regardless of their expertise, can observe where expectations are identified and against which behaviour can be assessed. Areas identified as part of the observable dimension include their knowledge of business, knowledge of senior management, initiative, preparation, time available, judgement, candour and integrity.

The literature discussing board evaluation as a system focuses on the content of the evaluation in terms of the identified purpose.

Minichilli (2007) identify four general areas that are important in identifying effective boards of directors (Huse, et al., 2005): board tasks, board membership, board culture and processes, and board structure and leadership.

The aim of assessing board tasks is to identify whether the board performs the tasks they are expected to perform (identified from a stakeholder perspective).

Board membership seeks to assess whether/how board member attributes contribute to meeting the different tasks, and through this to comprise a skill-based board that aims to match the competency and behaviour of board members with the strategy of the company (Leblanc & Gillies, 2005).

The third area is an evaluation of board culture and processes. This element focuses on the decision-making processes of boards and looks into the internal workings of the board (Atkinson & Salterio, 2002; Huse, et al., 2005; Minichilli, et al., 2007b). The reasoning behind including this in the board evaluation is the acknowledgement that a board with board members defined as capable in terms of the identified expected tasks is not enough in terms of ensuring board effectiveness. How these tasks are performed is also an important element. Minichilli (2007) identifies three aspects of board processes necessary to address: an evaluation of the decision-making culture where the aim is to assess to what extent board members share beliefs regarding the level of effort each member is expected to put towards conducting each task, and to what extent they are involved in cognitive conflicts (Forbes & Milliken, 1999): an assessment of whether board members' personal relationship might influence decision-making; and finally, an assessment of to what extent social ties between the board members and how often the board members interact might influence the decision-making process.

The last area is the evaluation of board structure and leadership. Assessment of the meeting structure should be performed (number, length and content of the meeting) as this will influence the board's work. The size of the board should also be considered both in relation to the tasks the board does, but also in terms of the board's ability to work as a group. Included in this area is also an assessment of board leadership, where the Chairperson is assessed on whether he or she is utilizing board potential when performing the tasks. According to Minichilli (2007) effective leadership should be measured as the Chairperson's ability to build a team, to what extent s/he manages to develop trust and cohesiveness among board members, and how s/he develops the decision making process of boards.

The Norwegian Code of Practice of Good Corporate Governance (NUES, 2009:38) gives the following information about what should be evaluated:

“the board of directors' evaluation of its own performance and expertise should include an evaluation of the composition of the board and the manner in which its members function, both individually and as a group, in relation to the objectives set out for its work.”

2.8.5 *The Evaluator – “WHO”*

The existing literature on board evaluation does not discuss this element to any extent. The preponderance of the literature that does discuss the evaluator is aligned in its approach and discusses evaluation as an isolated phenomenon and not in terms of a process or a system. The existing literature refers to the evaluator as the person in charge of conducting the evaluation. What is meant by conducting is, however, not clearly identified and dealt with in the literature. This will be discussed below.

Most of the existing literature divides evaluators into internal and external and discusses the prospect and consequences of using an internal versus an external evaluator. The general view many authors present is that the choice of evaluator should be based on criteria identified as important for objectivity, such as anonymity, and they argue that the use of an external evaluator meets this criterion (Garratt, 1997; Kazanjian, 2000; Shultz, 2009; Steinberg, 2000). It is further argued that the use of an external evaluator can possibly make the evaluation process smoother and less explosive as the use of external evaluators can deal with possible conflicts of interest or vested interest in the process (GCGF, 2008). Others argue that more subjective criteria should be used when deciding on the evaluator, such as the company's need for transparency and accountability (Kiel & Nicholson, 2005; Minichilli, et al., 2007b) They contend that if this need is strong, the company should use an external evaluator. But the choice will also be motivated by the fact that the board might not have the capacity or capability to perform an evaluation. Minichilli (2007) further argues that the choice of the evaluator should be a consequence of the purpose. If the purpose is internal development, identifying the board as the addressee, an internal evaluator might be useful because of the knowledge an internal evaluator has regarding the board and its processes. However, this is also the main argument against using an internal evaluator, as there is a risk that the board evaluation can become subjective and self-serving (Conger, et al., 1998; Minichilli, et al., 2007a). It is argued that it may be difficult to provide a totally objective picture when working closely with the board, and the person in charge must be chosen on the basis of his skills, not his knowledge of the board and its board members (Kiel & Nicholson, 2005).

As identified previously, the literature does not, to any great extent, discuss what is meant by conducting an evaluation. There are several possible tasks related to conducting an evaluation. In general terms, the evaluation process may be divided into four stages:

- Prepare (Deciding on purpose, designing the evaluation)
- Perform (Distributing, receiving, collating and analysing)
- Present (Presentation of the result to recipients)
- Proper follow-up (Identify, initiate and supervise needed follow-up)

It is evident that the evaluator might be involved in several of these identified phases and the decision about the evaluator is important. However, as the literature views this element as isolated from other elements of board evaluation and fails to define what is meant by conducting

the evaluation, the evaluator's importance and possible influence on these elements is not discussed to any great extent.

The Norwegian Code for Practice of Corporate Governance recommends that the board **consider** using an external evaluator.

2.8.6 Modality used "HOW"

In section 2.8.3, the object of the board evaluation in terms of boards collectively or in terms of individual board members was discussed. In this section the modality used for the evaluation is dealt with at two different levels: how the board evaluation should be performed, and the method used. Included in the first category are the discussions related to the different possibilities boards have when performing an evaluation, whether it can be categorised as an internal approach (self-evaluations, peer-evaluations, evaluation by management), or external approach (evaluation performed by a third party, such as the Nomination Committee, a corporate Governance Committee, the share market, or other stakeholders (Conger & Lawler, 2002; Graf, 2007; Hoffman, 2003; Huse, et al., 2005; Kiel & Nicholson, 2005; Montgomery & Kaufman, 2003; Nadler, Behan, & Nadler, 2006; Sroufe, 2005; Stein & Hewett, 2008). In the second category, available methods when performing board evaluation are discussed, such as surveys, interviews, participant observation, document analysis etc.

Most of the existing literature discusses the different approaches available when performing a board evaluation in terms of what they are, advantages of the approach, including situations where the approach is considered useful, and the disadvantages of the approach. The different approaches are discussed generally and not in terms of the object to be evaluated. Although the literature that focuses on internal approaches to board evaluation (such as self-assessment and peer-assessment) discusses this in terms of objectivity, the literature focusing on external approaches to board evaluation (such as evaluation by third parties) does not discuss this issue. In addition, the different approaches are not discussed in terms of their ability to meet the purpose of the evaluation, nor are the approaches discussed in relation to the decided evaluator.

If board evaluations are performed as self-assessment, they are characterized as evaluations where board members assess either their own performance or the performance of the board collectively (Hoffman, 2003; Nadler, et al., 2006). This is the most common way to evaluate boards (Conger, et al., 1998; Kazanjian, 2000; Minichilli, et al., 2007a; Sroufe, 2005; Stybel & Peabody, 2005). One of the advantages identified with this approach is the possibility it gives to increase the consciousness of board members (Conger & Lawler, 2002; Hoffman, 2003). Some authors consider self-assessments particularly useful in situations where the board is new, or the board members have not worked together long enough to be comfortable assessing each other's performance, as it is the least intrusive method of board evaluation (Nadler, et al., 2006; Sroufe, 2005). In the category of academic literature viewing the evaluation as a system, this approach is considered useful when the purpose of the board evaluation is to improve the inner workings of the board (Ferguson, 2001; Minichilli, et al., 2007a). Conger & Lawler (2002) argue

that self-assessments run the risk of becoming self-serving and biased, as they offer only one perspective. People's self image might not be aligned with the views of others. Because of this, many view the process of self-evaluation to be a starting point, but not enough (Conger & Lawler, 2002).

The peer-review is an approach where board members are assessed on the same criteria as used for the self-evaluation, but where they are assessing each other, not themselves. Peers are considered to be good at rating performance as it is considered more likely that they are able to observe most of individual contributions to a group's performance (Conger & Lawler, 2002). Board members see each other at work and therefore have first hand knowledge of other board members' contributions (Montgomery & Kaufman, 2003). Others argue that because the evaluation is performed by peers, the director will be less anxious about the process. The method is also considered useful, as directors who are evaluated by their peers will take the feedback they receive seriously (Nadler, et al., 2006). This is a useful method, either as a stand-alone method, or as a second step assessment with the purpose of increasing the objectivity of a self-evaluation process (Conger & Lawler, 2002). However, the method is defined as invasive and controversial by some (Hoffman, 2003; Sroufe, 2005), with the possibility of making directors uncomfortable when performing this evaluation. One argument used against this method of evaluation is the basis by which the evaluation is performed. Much of a board's work is done outside the board room, but peer evaluation can only be performed based on interaction inside the boardroom (Sroufe, 2005). In addition, it is argued that peers are reluctant to criticize members of their own group as long as the actual performance meets some basic standard. (Montgomery & Kaufman, 2003). They argue this based on the fact that this can lead to a weak board breeding a weak board, as no one is criticized as long as performance meets a certain level of standard. An important aspect if peer reviews are used is thus to link the evaluation not only to internal expectations, but also to external expectation.

Sroufe (2005) suggests that the approach can be a combination of internal and external, where the evaluations are performed by third parties together with the director (Sroufe, 2005).

The third party and the director talk through the questions and the statements provided. A clear advantage of this approach is the possibility it gives to clarify questions if needed, in addition to the possibility any discussion gives related to initiating follow-up questions, and thus comes up with suggestions for improvement (Nadler, et al., 2006).

Minichilli (2007) suggests the approach of using a third party when evaluating the board, such as the Nomination Committee, the share market, or other stakeholders. Although suggesting that the approach of using the share market or stakeholders might meet some challenges regarding the criteria against which the boards should be evaluated, the author does not discuss to what extent board members should be involved in this evaluation nor the effect such an approach might have on objectivity.

The second category within regarding modalities of the board evaluation discusses the methodology used, categorised into quantitative and qualitative methods. Typically, interviews, participant observation and document analysis and open discussions are defined as qualitative methods (Kiel & Nicholson, 2005; Minichilli, et al., 2007a), while surveys and reports to

authorities (often through the annual report) are methods identified as quantitative (Kiel & Nicholson, 2005; Minichilli, et al., 2007a).

Interviews can be used in board evaluations, irrespectively of whether the board performs an evaluation of the board collectively or of board members individually (Kiel & Nicholson, 2005), and can be used regardless of whether the evaluator is an internal or external (Minichilli, et al., 2007a). One advantage of this method is the use of a third party, possibly more objective than the directors themselves, and the possibility it gives to follow-up and probe answers given to ensure that feedback is constructive (Nadler, et al., 2006). The methodology also gives the ability to probe issues that directors do not want to expose in a written survey (Conger, Lawler III, & Finegold, 2001).

Minichilli (2007) argues that Interviews are useful if one wants to investigate board processes, and Kiel & Nicholson (2005) find them useful when investigating issues in depth. The argument here is that interviews may encourage an open disclosure of board issues if confidentiality is assured.

Participant observation is observation of board members in their natural environment (Kiel & Nicholson, 2005; Minichilli, et al., 2007a). Typically this will be used when evaluating the board collectively and when the board uses an external evaluator (Minichilli, et al., 2007a). The observer does not ask questions, just takes notes of the participants' behaviour and activities that are of interest to the purpose of the board evaluation (Kiel & Nicholson, 2005). A main advantage of observation is related to data being collected as they actually occur, and not later and influenced by the views of what director thought occurred (Kiel & Nicholson, 2005). Another advantage is that the data collected may include other elements of the boardroom processes one loses when performing the evaluation outside the boardroom or through other methodologies. Some of these are symbolic elements, such as seating arrangements, the leadership role of the Chairperson, whether some board members are dominant, how the agenda works in practice, etc (Kiel & Nicholson, 2005). Although considered invasive, it is viewed as an effective way to evaluate real life behaviour of board members, and thus useful when assessing the internal processes of boards (Minichilli, et al., 2007a). It is, however, worth noticing that the data collected through participant observation is not free from observer bias. Another methodology which can be used in board evaluation is open discussion (Minichilli, et al., 2007a). This method enables the board to discuss the board's behaviour, both past and future. Minichilli (2007) further argues that this method is particularly useful in relation to giving individual directors the opportunity to reflect on individual director's achievements. However, they argue that this method runs the risk of becoming a ceremonial exercise when used to evaluate the board collectively, as the importance of preserving harmony within the group is more important than applying a constructive and critical approach.

Huse (2005) and Kiel & Nicholson (2005:625) also mention the use of document analysis when performing board evaluation, where possible sources of information can be the "board papers, board minutes, policy manuals and governance charts". It is argued that such analysis can provide valuable insight into a company's governance system, and can be useful in triangulation

with other methods, such as interviews and observation, as well as in benchmarking against other boards(Kiel & Nicholson, 2005; Minichilli, et al., 2007a).

Kiel & Nicholson (2005:622) argue that qualitative methods are assumed useful if the purpose of the evaluation is related to solving a problem, as qualitative techniques can “identify the problems, screen alternatives, and uncover new approaches” (Kiel & Nicholson, 2005:622). Included in the quantitative methods used for board evaluation is the survey. Survey is a common methodology(Kiel & Nicholson, 2005), and can be used either when the board evaluates the board collectively, or its individual directors. The result of a survey can typically be measured, and they are specific (Kiel & Nicholson, 2005; Nadler, et al., 2006). This make them useful for comparing the results between individuals, or comparing the result of the board from year to year, and the result can also be used to benchmark against other boards, codes for practice, or other quantified expectations (Kiel & Nicholson, 2005; Minichilli, et al., 2007a; Shultz, 2009). One of the disadvantages of using a survey compared to, for example, interview is the decreased information in the data, as the data is transformed to numbers. The easiness of comparing the result when using a survey to conduct the board evaluation should also be compared against the risk of respondent biases as the underlying reasons for the scores not being apparent, or the responses being subjective(Kiel & Nicholson, 2005).

The Norwegian Code for Practice of Corporate Governance does not say anything about the modality of a board evaluation.

2.8.7 Timing of the evaluation “WHEN”

In this section, views on when the board evaluation should be performed are presented. Not much of the existing literature discusses this element of the board evaluation. Many of the codes use the wording regularly or annually in their recommendation of board evaluations (Financial Reporting Council, 2003; NUES, 2009). Kiel & Nicolson (2005) argue that an underlying structure or systems should be in place which can trigger the frequency. A decision to undergo board evaluation as needed might be ok if established systems are in place indicating when an evaluation is needed, such as change in board composition or other indicators. It is further argued that an annual review make sense as most business cycles are yearly, such as planning, strategy etc. However, the disadvantage of the annual event is the possibility of the board evaluation becoming a routine activity with the risk of not adding value. In these circumstances it is argued that the evaluation style and the methodology used are changed to make the process less routine. Consistency should nonetheless be taken into account, thus making it possible to compare performance over time. Others (GCGF, 2008) argue than although board evaluations should be performed every year, the extent and nature of any evaluation should be based on the previous board evaluation performed. If the board chooses to undergo evaluations less frequently than on an annual basis, it may be related to the process being thorough and time consuming, combining different methodologies and involving

an external evaluator. The problem with less regular evaluation is the mismatch between the cycles of the business, and the frequency of the evaluation (Kiel & Nicholson, 2005). Another possibility is to conduct an evaluation at every board meeting, making it an ongoing event (Carver, 1997; Kiel & Nicholson, 2005). This is done by making it a regular agenda item where the directors in turn evaluate the meeting.

The Norwegian Code for practice of Corporate Governance indicated that the evaluation should be performed once a year.

2.8.8 Follow-up of the evaluation

As indicated earlier, the element of follow-up in the literature is often referred to as who should receive the result, and not so often what should be done with the result (Day, 2008; Kiel & Nicholson, 2005; Minichilli, et al., 2007a). This is specifically related to the literature discussing evaluation of a board collectively. Although some comment on the importance of the result being materialized into an action plan (Day, 2008; Leblanc, 2009; Sroufe, 2005; Stein & Hewett, 2008), this literature is not very specific about the content of this action plan, and who should be responsible for it. Leblanc (2005) argues that any follow-up should be an integrated part of a comprehensive director education and development program for the board, its committees and individual directors.

The literature discussing individual director evaluations is much more specific as to what should be done with the result in addition to communicating the result to the individuals involved (Conger & Lawler, 2002; Leblanc, 2005b-b; Leblanc, 2009). Some argue that the natural first step when presenting the result of an individual evaluation is to discuss it with the individual director (Kiel & Nicholson, 2005; Leblanc, 2005b-b; Leblanc, 2009). If the result identifies that some action is needed, several possibilities are identified as noted above. Leblanc (2005) argues that non-performing board members, for whatever reason, should be asked to go, as these directors are chosen for their specific competency and behavioural characteristics. Conger (2002) discusses follow-up in terms of underperforming directors. These directors should initially be given the possibility to change their behaviour. If the director does not improve as discussed during the first evaluation, the result should be discussed and handled by the Nomination Committee, indicating that the underperforming board members will not be re-nominated.

The Norwegian Code for Practice of Corporate Governance does not indicate anything regarding follow-up.

2.9 Governance of Norwegian companies

How Norwegian listed companies are organized in terms of existing bodies is different than in many other countries, and thus a presentation of some of the characteristics of the governance

structure might be useful to give the reader a better understanding of the context in which the research is conducted.

The governing structure will have an effect on composition of boards in Norwegian listed companies and factors influencing this composition will be presented. A reason for this difference is the Norwegian tradition of co-determination. In general, the Norwegian corporate structure is built on three distinct levels of governance:

Shareholders through the general meeting

The board

The CEO

The general meeting is the body representing shareholder interest. Shareholders have, through the general meeting, the authority to elect the majority of the directors of the board members. If a corporate assembly exists, (see below) the election of board members is done by the corporate assembly. The board of directors has the highest decision-making authority in the company, but there is a compulsory delegation of the day-to-day running of the company from the board to the CEO. According to the Companies Acts, the board "has the ultimate *responsibility* for the management of the company and for *supervising* its day-to-day management and activities in general, including responsibility for ensuring that the activities are soundly organized, drawing up plans and budgets for the activities of the company, *keeping itself informed* of the company's financial position and *ensuring* that its activities, accounts and asset management are subject to adequate control" (NUES, 2009:34).

In Norway, there is a tradition for representatives from the top management team to attend board meetings even though they are not formally board members. The CEO may be a board member, but not a board chairperson in companies with more than three million NOK in share capital. CEO duality and plural titles are thus not common in Norway.

A special feature in a Norwegian context is the existence of the corporate assembly. This body was introduced in 1972, with the purpose of enhancing the possibility for employees to influence the governing of the company (Bråthen, 2008). In Norway, a company with more than 200 employees is required to have a corporate assembly consisting of minimum 12 persons where 2/3 of the members are elected through the general meeting and 1/3 of the members are elected by and among the employees.

One of the main duties of the corporate assembly is the election of the board of directors, including the Chairperson. In this context, the corporate assembly and not the general meeting is left with the authority to elect board members. Neither the CEO, nor any board member can have a seat in the corporate assembly. In addition to electing the board, the corporate assembly should also supervise the management of the company by the board and the executive management. It is possible for the company to enter into an agreement with its employees not to have a corporate assembly. In return, the employees are given greater representation on the board. In these circumstances, the majority of the duties of the corporate assembly are transferred to the board of directors (NUES, 2009). 40% of the companies included in this research have a corporate assembly. However, this sample may not be representative when viewing all Norwegian listed companies with more than 200 employees

together. Although no official figures exist, it is assumed that about 20 % of listed companies have a corporate assembly.

An important characteristic of Norwegian boards is the employees' right to a seat on the board in companies with more than 30 employees. These board members are elected by and from the employees themselves, and are referred to as employee-elected board members. In companies with more than 200 employees, and where the right to a corporate assembly has been waived, the employees have the right to elect 1/3 of the board members by and from the employees, in addition to the right to elect one of the board members nominated by the nomination committee or the general meeting. This right can also be waived against the right to elect 1/3 of the board members and two observers to the board (Bråthen, 2008).

According to prevailing regulations for Norwegian listed companies (The Public Company Act), both women and men should be represented on boards in listed companies, each with at least 40% (§ 6-11a). A law was proposed in 2002 by the Norwegian Parliament that all Public Limited Companies (ASA) should have gender balance. Each gender should have at least 40% of the board members in ASA firms (Huse, 2008). The ASA firms had a few years to implement this requirement voluntarily - otherwise the law would be ratified and enforced. The enforcement of the law began in the beginning of 2008, but by then all ASA companies (with very few exceptions) had met the requirement of at least 40% women.

As seen from the above, the structure of the board of directors and their work is determined partially by existing laws. In addition the Norwegian Code for Practice of Corporate Governance (NUES) makes some recommendations which influence the structure of boards of directors, and some of the committees within the corporate governance system. The Norwegian Code for Practice of Corporate Governance identifies three levels of independence which may influence the composition of the board of directors (NUES, 2009:31):

The first level indicates that "members of the board must not operate as individual representatives for specific shareholders, shareholder groups or other stakeholders". This level of independence applies to all board members, and thus assumes a company perspective regarding the board's work.

The next level of independence states that "in order to support the share market's confidence in the independence of the board, at least two of its members should be independent of the company's main shareholder". What in fact is meant by this statement or how it is practiced is not explained further, which means that we do not know when this independence is "measured". Is it at the time of nomination or time of election? Or is it at some other point?

The recommendation gives an additional dimension to independence: "the majority of the members elected to the board of directors by shareholders should be independent of the company's executive personnel and its main business connections".

Based on these two dimensions, it must be assumed that the Norwegian Code for Practice of Corporate Governance recommends double independency for at least two of the board's members, partial independence from the owners (the largest), and independence from management and the company's business contacts. The independent board member selected for this research is assumed to fulfil all the above dimensions. The Chairperson selected is

assumed to fulfil at least the first dimension, and the employee-elected board member only the first dimension.

The last characteristic of the Norwegian corporate governance system worth mentioning is related to the Nomination Committee. In a Norwegian context, as in other countries, this committee's main responsibility is to propose candidates for election to the board of directors. However, the Norwegian Code for Practice of Corporate Governance makes recommendations regarding the composition of the committee to ensure independency between the board and the Nomination committee. These recommendations are not necessarily aligned with recommendations in other countries. According to the Norwegian Code for Practice of Corporate Governance, "the majority of the committee should be independent of the board and the executive personnel. At least one member should not be a member of the corporate assembly, or the board. No more than one member of the Nomination Committee should be a member of the board of directors, and any such member should not offer himself for re-election. The Nomination Committee should not include the company's CEO or other executive personnel." (NUES, 2009:26). The Nomination Committee is elected by the general meeting and its composition should reflect the interest of the shareholders in general. In addition to proposing candidates for election to the board of directors, the committee is also charged with proposing the fees to be paid to the board and the corporate assembly. Based on the above, it can be assumed that the Nomination Committee is independent from the board and its sub-committees and the corporate assembly if the recommendations are complied to.

2.10 Summary, conclusions and research propositions

2.10.1 Summary

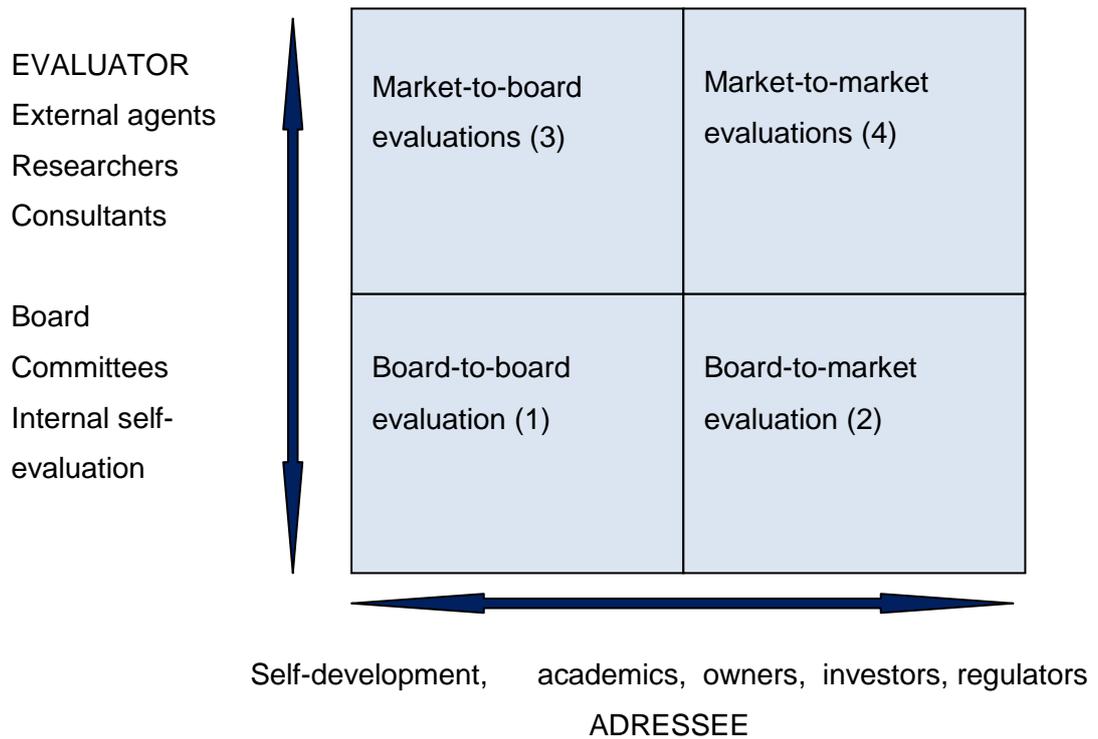
In section 2.7 and 2.8, board evaluations have been discussed. In section 2.7, board evaluation was discussed at a macro level, trying to identify why board evaluations were introduced in a corporate governance context. The argument for introducing board evaluations can be found from the accountability perspective. It was argued that potential benefits of board evaluations are improved leadership and teamwork, clarity of roles and responsibility. At board level, board evaluations have the possibility to improve decision-making, communication and board operations. Board evaluations can enhance good corporate governance through enhanced confidence between the company and its stakeholders. Resistance against board evaluations is mainly put forward from a board member's perspective. Board evaluations were perceived to have a negative effect on internal working conditions and the possibility to recruit new board members. They are time consuming and there is a lack of evidence regarding their ability to enhance performance.

In section 2.8, the different elements of board evaluations were discussed. Most of the literature looks at different elements of the board evaluation without viewing it as a system where the different elements should be interrelated. The literature discusses the different

elements of the board evaluation in terms of the different choices that are available when designing a board evaluation. The main focus is to discuss the advantages and disadvantages of the different choices and suggest possible situations where the different choices might be considered useful.

A criticism against much of the existing literature is the focus on specific elements of any board evaluation without considering the different elements together. Kiel & Nicholson (2005) made the first attempt to see board evaluations as a process, building a framework for board evaluation consisting of seven key questions to consider when planning a board evaluation. The main focus in this paper was to use board evaluations to prevent board failure by introducing a framework for companies in general. Within this context, it might be assumed that initiative for introducing board evaluations comes from boards themselves and not as a consequence of recommendations put forward by different Codes for practice of Corporate Governance. Minichilli (2007) developed a framework for board evaluations grounded on the recommendation of board evaluations in the different codes. Building on previous literature on board evaluations, they systemized some of the elements of the board evaluation process and categorized board evaluations as systems. Based on decisions regarding for whom the board evaluation is performed (indicating the purpose), and combining this with different possibilities regarding the evaluator, they categorised board evaluations as board-to-board, board-to-market, market-to-board, and market-to-market as indicated below:

Figure 2.10.1: The different board evaluation systems



Adapted from Minichilli et al. (2007)

A board-to-board system of board evaluation (1) is characterized as a process which is internally driven. In this case, the evaluator is internal, and the result is communicated only to the board. In the board-to-market system of board evaluation (2) the evaluator is internal, but the purpose is to meet external expectations. Hence, the addressees are external stakeholders such as owners, the financial market, etc. A market-to-board evaluation (3) is an evaluation initiated to comply with existing recommendations, but where the focus is to improve internal processes. In this category, it is common to use an external evaluator. In the last category, the market-to-market board evaluation (4), the evaluations are initiated and driven by the external market, and the market itself is the addressee of the result. The purpose of this system is to enhance accountability and transparency, and to gain credibility in the financial market. The argument behind viewing board evaluation as a system is that board evaluations, in order to be effective, should enable to compare expected performance with actual performance. This cannot be done unless the expectations are identified through the purpose, and the design of the board evaluation's process fits the purpose.

2.10.2 Conclusion/research gap

As identified previously, little empirical research has been conducted to increase our understanding of board evaluations in a corporate governance context.

The existing research on board evaluation is descriptive, with the purpose of “trying to describe the event or the situation” (Saunders, Lewis, & Thornhill, 2007). It can be classified as research trying to identify whether board evaluations are performed (Conger & Lawler, 2002; Kazanjian, 2000; Shultz, 2009; Stybel & Peabody, 2005), whether the evaluations are performed as assessment of the board collectively or of individual board members (Conger, et al., 1998; Edwards & Shultz, 2008; Graf, 2007; Hoffman, 2003), and identification of how board evaluations are perceived by the board and especially the Chairperson (Conger & Lawler, 2002; Kazanjian, 2000). There is also a research performed in Sweden in fifteen municipal companies in Stockholm. The purpose of that research was to use a specific modality of gap analysis to describe whether there was a gap between interviewees’ perceived importance of an issue related to board tasks, and to what extent it had been carried out. In Norway, one research project has been performed which can be related to issues related to board evaluation (Huse, et al., 2005). In this project, the researchers were invited to observe the board with the purpose of assessing process-oriented boardroom dynamics. During the observation period, it was agreed that a report, based on the observations, should be given to the board in order for them to use this as input to increase board effectiveness.

Although this research discusses elements important in the context of board evaluation, such as board dynamics, there are several differences between this research and the research performed in this thesis. First, the company participating in this research is not listed on the Oslo Stock Exchange, and conducting board evaluations is thus not part of the existing framework to which the company has to comply (or explain why they do not comply). The purpose of the research was to view the boardroom dynamics of the board, not to perform research on board evaluation. The findings are inductively related to board evaluation, and this is a secondary purpose of the research. It is not initiated to increase our understanding of board evaluation. Thirdly, the research only looks at how boardroom dynamics can be linked to board evaluation, not the whole process of board evaluation.

Based on the above, the research gap can be identified. As seen in section 2.7, the literature argues for why board evaluations should be performed. However, it is a fact that until the different codes of corporate governance introduced board evaluations, few boards performed board evaluations. It has also been established that the transparency of the performed board evaluations are low. These elements are the basis for performing research on board evaluation in Norway. However, no empirical research has been performed regarding how the board evaluations are performed in large listed companies in Norway. This research will thus contribute to our understanding of board evaluations in a Norwegian corporate governance context, and will enable me to build a model of board evaluation for listed companies with the ability to enhance corporate governance in Norway. Although this research is performed in Norway and should be understood in this context, it will also add to the existing body of

literature and thus increase our knowledge of board evaluations in a corporate governance context. Given the research gap identified through the lack of empirical research, the purpose of the literature review has been to identify the framework to be used in the process of data collection and elements which can be used as input for building a model for board evaluation. Valuable insight into the process of board evaluation and board members' approaches towards board evaluations can be gained by interviewing board members in Norwegian companies and asking questions related to: "Why the board evaluation is performed", "For whom the board evaluation is performed", "What the board evaluation contains", "Who is performing the evaluation", "How the board evaluation is performed", "When the board evaluation is performed", "What is done with the result", and what is board members' involvement in the board evaluation,. Through this insight, some conclusions regarding the evaluation's ability to contribute to board effectiveness can be made. As indicated previously, although the Norwegian Code for Practice of Corporate Governance recommends that board evaluations are conducted, it is left to the companies themselves to decide the different elements of the process. The first research proposition is put forward to get a general insight into board evaluations as performed by Norwegian listed companies and can be expressed as follows:

"What are the approaches adopted by Norwegian listed companies regarding board evaluation?"

By interviewing board members, and analysing board evaluation forms used, knowledge of how boards perform board evaluation can be gained and an actual model of board evaluation can be identified at company level but also across companies.

By interviewing three board members in each company, valuable insight into how different board members perceive the existing board evaluation process and knowledge of their approach towards it can be gained. The second proposition can be expressed as follows:

"What factors influence the approaches among boards?"

The findings from this can be used to develop a perceived actual model of board evaluation per company and across companies, but can also be used to analyze the approach of different board members at an aggregated level.

The third research proposition put forward is related to establishing whether the board evaluation as perceived by the different participants of the same evaluation reflect the aspiration these board members have regarding board evaluations and can be expressed as follows:

"Is there a gap between the perceived actual model of board evaluation and participants preferred model of board evaluation? And to what extent do the approaches differ between different board members and participants?"

By establishing a preferred model of board evaluation, gap analysis between the perceived actual model and the preferred model can be performed within each company, but also across companies.

The last research proposition uses the findings in my field research and combines them with the existing literature on board evaluation with the objective of building a model of board evaluation for Norwegian companies which could support improvement of Norwegian boards. The proposition is expressed as follows:

“To what extent can a Norwegian board evaluation model that contributes to board effectiveness be derived from the field research?”

In this section, the literature review was summarised and the research gap identified.

The research was presented in terms of how it will contribute to closing the research gaps, and, lastly, the research propositions were presented. In the next chapter I will present how I intend to contribute to closing the identified gap by presenting my methodology. The context in which the research is conducted will also be presented.

Chapter 3 - Methodology

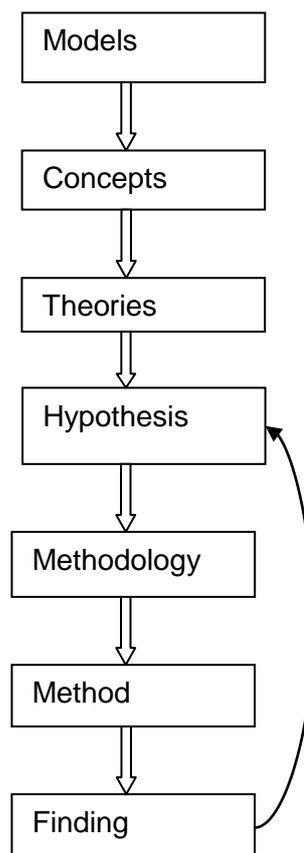
Introduction

Methodology can be defined as “an operational framework within which the facts are placed so that their meaning may be more clearly exposed (Jonsson, 2007:135; Leedy, 1989:135). According to Silverman (2005:99) it “refers to the choices we make about cases to study, methods of data gathering, form of data analysis etc. in planning and executing a research study”. The purpose of this chapter is to identify and discuss the methodology design used in this research. In section 3.1, my research design is viewed in a wider context. The research process is identified and the reasoning behind my choices is presented and discussed. In section 3.2, how I operationalized my research process will be presented. In section 3.3, some contextual issues regarding the Norwegian market and the corporate governance system are presented to give the reader a better understanding of the research project.

3.1 Research in a wider context

Several attempts have been made to illustrate the research process. Silverman describes 7 levels of analysis to link some of the basic terms in scientific research.

Figure 3.1.1 Methodology: level of analysis



Adapted from Silverman (2005:98)

3.1.1 *Models and concepts - paradigms*

Models represent an overall framework for looking at reality (Silverman, 2005). The term “model” used by Silverman is also referred to as paradigms which explain methodology in general terms (Kuhn, 1962). *Concepts* are defined as “clearly specified ideas deriving from a particular model offering a way to look at the world, which will guide the researcher in the defining of a research problem, but also how to gather data” (Silverman, 2005:98). It is useful to discuss these two terms together when identifying how the data in this research was collected and the reason for this choice.

It is argued by Guba and Lincoln, referred to in Saunders et al (2007), that the question of research methodology is of secondary importance to questions regarding which paradigm is applicable to the research (Saunders, et al., 2007). Any research should start by deciding on a research philosophy, as this contains important assumptions about the way the researcher views the world.

A paradigm can be explained in terms of “ontology” describing what the reality is like and the basic elements it contains, or it can refer to the nature and status of knowledge in terms of epistemology, or how we know what we know (Jonsson, 2007; Silverman, 2005:98). In this context, the assumption made regarding research philosophy will influence the research process. Against this view, the position of pragmatism can be argued for (Saunders, et al., 2007). Pragmatism argues that the research questions are the most important determinant of the research philosophy adopted, as one approach may be better than the other in terms of answering the research question. The research propositions in this thesis, and thus the research philosophy adopted in this research, can be classified as subjectivism within the philosophy of ontology. This view is often referred to as social constructionism (Saunders, et al., 2007) and argues that social phenomena are created from perceptions and consequent actions of social actors. Moreover, this is a continual processes, in that through interactions between the social actors, these social phenomena are in a constant state of revision (Saunders, et al., 2007). The research propositions put forward in this thesis have identified the concept of board evaluation in a corporate governance context. It has been assumed that the concept of board evaluation should assess actual board task performance against expected task performance. The literature review performed in chapter two started with an identification of the different roles and tasks of the board, and it was established that the concept of roles of the board are far from clear in terms of what they are. It was further established through the literature review that the concept of board evaluation is not developed within the corporate governance literature in terms of theoretical arguments for why it should be performed, and how it is actually applied by companies. The argument for applying the philosophy of subjective ontology/ social constructionism is that this research seeks to increase our understanding of board evaluations in a corporate governance context. Given the ambiguity of the concept of role and tasks of the board and the underdeveloped concept of board evaluation from a theoretical standpoint, this increased understanding is gained through research on the approaches adopted by the board of directors regarding board evaluation and acknowledges that the board of directors is comprised

of social actors. Moreover, how the board evaluation is conducted should be understood within that context.

3.1.2 Theory

Theories define and explain different phenomena by arranging sets of concepts (Silverman, 2005:98) and are necessary in order for phenomena to be understood, developed and modified. A more general description of a theory has been that they answer the question “why” (Jonsson, 2007; Kaplan, 1964; Merton, 1968). or they are regarded as solutions to problems (Popper, 1994). According to Jonsson (2007), perceptions of theories can be divided into two. They can be viewed as ideas, explaining the “why” of daily lives, using the approach of empiricism (Llewelyn, 2003), or they may be perceived as “grand theories”, formulated in the world of ideas rather than practice using the approach of rationalism (McKelvey, 2006; Van de Ven & Johnson, 2006). The approach of grand theories is the basis of deductive research, the argument being that theories are developed before empirical evidence is sought (Jonsson, 2007). Against this approach, the views of Glaser and Strauss can be put (Glaser & Strauss, 1967), where they argue for an inductive approach to theory building based on the fact that there is a connection between empirical reality that permits the development of a valid and testable theory. This approach is often referred to as grounded theory where the argument is that “theories should be built from empirical evidence rather than out of thin blue air” (Jonsson, 2007:144). The argument put forward here is not to say that one approach excludes the other. In much research the deductive and inductive approaches are combined and the research starts by identifying an existing theory. The deductive approach is applied to confirm the theory and the inductive approach is used to further develop it. Strauss and Glaser (1967), however, would argue that the starting point is observation, not theory. In this research, a multi-theoretical approach has been adopted. The first argument for this is the ambiguity in the corporate governance theories regarding the role and the tasks boards perform, and because one single theory is too narrow to explain the different roles boards have, or the tasks they perform. As board evaluation is about assessing actual tasks performed by the board, such a multi-theoretical approach is called for. Another argument for this approach is that the existing literature on board evaluation does not link board evaluation to any specific theory as identified in section 2.7. Given these facts, an inductive research approach has been adopted in this thesis. The purpose of this approach is to develop an understanding of board evaluation in a corporate governance context by gathering empirical evidence from boards conducting these evaluations. Through this approach it is possible to build theory and from this, hypothesis can be developed. An important element of this approach is the ability to gain access to board members as they conduct the board evaluation and it is via collecting data from them such an approach can be realized. The process of gaining access started early in the research process. Membership in a network -- initiated through Ernst & Young in Oslo and consisting of 20 audit committee board members of listed companies -- enabled me to introduce myself as a researcher and to present my research project.

This initial connection was considered very valuable for my ability to gain access to boards, as these board members could act as a door-opener in the coming process of officially asking the board to participate in this research. As will be discussed later, such access was granted. Whether this access was granted because of my network or not is not possible to say, as only 3 of the members in the network group were board members in companies included in this research. However, it is a fact that because of this network and my active approach regarding my research through this network, my name and my research became known to these board members before an official invitation to participate in this research was sent out. Having decided on the inductive approach, the next step in the research process is to decide on the appropriate methodology to apply which will enable me to meet the purpose of building theory. The different possible methods will be discussed in section 3.1.3, and the chosen methodology will be identified and discussed

3.1.3 Methods

Methodology can be defined as “a general approach to studying research topics” (Silverman, 2005:109). Others (Easterby-Smith, Thorpe, & Lowe, 2002:31) have defined methodology as a “combination of techniques used to enquire into a specific situation”, and methods as “individual techniques for data collection, analysis etc.”

An important aspect of methodology is to decide on the research approach. There are several research approaches available, such as experiment, survey, case study, action research, grounded theory, ethnography, archival research and participant observation (Saunders, et al., 2007). Before discussing the approach chosen in this research, it may be useful to discuss the design of the research. There are three types of research design according to Saunders (2007:133), exploratory studies, descriptive studies and explanatory studies. Others (Churchill, 1995; Jonsson, 2007) refer to explanatory research as causal research. While the focus of exploratory research is the discovery of ideas and insight, descriptive research is typically concerned with portraying “an accurate profile of persons, events or situations” (Robson, 2002:59) cited in (Saunders, et al., 2007:134). Explanatory research is comprised of studies that establish the relationship between variables (Jonsson, 2007; Saunders, et al., 2007). This research is defined as an exploratory study (Saunders, et al., 2007; Yin, 2003). It is argued that these studies are valuable when the purpose is to find out “what is happening; to seek insights; to ask questions and to assess phenomena in a new light” (Robson, 2002:59) cited in (Saunders, et al., 2007:134). Exploratory research can be conducted by a search in existing literature, by interviewing the defined “experts” in the subject, or conducting focus group interviews. Labelling the research as exploratory will not limit the choices regarding research approach or method.

The choices made regarding research approach and methods are made based on their ability to answer the research propositions and thus meet the objective of the research. Other elements, such as the extent of existing knowledge, the amount of time available, resources available, and

the philosophical underpinnings of me as a researcher will also influence the research approach chosen (Saunders, et al., 2007).

Having defined the research as an exploratory research with the purpose of gaining insight into the concept of board evaluation in a corporate governance context, it was considered important to choose a methodology which would enable me to reach this objective. Given that the existing literature on board evaluation lacks the scope to identify the theoretical origin from which board evaluation can be derived, that little empirical research has been conducted, and the fact that I had the possibility to gain access to boards, it was important to decide on a method which I considered to be the best choice in order to meet the purposes of the research as identified above. It is worth noticing that methodology and methods of sampling data cannot be right or wrong, only more or less useful (Silverman, 2005). However, given that the research is conducted on boards of directors who meet a limited amount of time every year and who are considered to be busy people, several options, such as action research, experiment and ethnography were ruled out on the grounds that these methods were considered less useful in meeting the purposes of the research. And of course, some of these approaches, if considered useful, are difficult to use in research on boards of directors.

Surveys are useful in terms of collecting large amounts of data. The ideal sampling procedure -- if the purpose is to generalise -- is random sampling of a wide population (Churchill, 1995). As this may not often be possible, some other sampling technique needs to be used and this is often a non-probability technique. In this research, the purpose is to achieve a deep understanding of the approaches to board evaluation in listed companies in Norway, as the use of board evaluations are recommended through the Norwegian code of practice of Corporate Governance. To get this understanding it is important to gather data from companies which are in fact conducting board evaluations. Based on preliminary research of the 25 largest companies through analysis of their annual reports, it was concluded that 73 % of Norwegian listed companies performed board evaluations. The findings in this preliminary research might, however, not be representative if all listed companies had been included in this preliminary research. The reason being that the sample used for this preliminary research was large companies. Given their high liquidity in shares and the fact that the Norwegian Government is a large owner in these companies, the ability and motivation to comply with the recommendations were assumed to be high.

These considerations indicate that a non-probability sampling procedure would have to be used for the survey. To gain understanding of how board evaluations are conducted in Norwegian listed companies, and to find the appropriate approaches to this end, it is important that data must be gained through gathering data from boards that actually do perform board evaluations. Against this argument can be put that knowledge regarding why boards do not perform board evaluations is also an important aspect to consider. However, given the purpose of this research, this element is left to future research. As will be discussed in section 3.2.1, the sampling procedure actually used in this research is a non-probability sampling. The sampling procedure is based on convenience and judgment. Given the fact that the sampling procedures are limited through the arguments given above, the possibility of getting data from many

companies was traded off for the possibility of collecting comprehensive data from a smaller group of companies. In addition, as access to boards was granted, the usefulness of surveys to meet the purpose of this research was perceived to be less than other possible methods, including the fact that this design limits the possibility of using the important aspect of follow-up questions as a means of gathering data.

Another possible methodology is the participant or non-participant observation. However, this approach was deemed less useful for meeting the purpose of the research. In general terms, participant observations limit the scope of the number of boards to include in the research as they are time consuming. In addition, granting access to the boardroom is considered difficult for confidentiality reasons. However, given that boards would allow me to observe, regardless of whether it was performed as participant or non-participant observation, this methodology would only be useful if the whole process of board evaluation was conducted by the board collectively. In addition, by this approach I would lose out on the possibility to discuss the board evaluation process with individual board members, an element considered important for the collection of data on different board members' approach to board evaluation.

In this research a multi-method approach has been chosen. The use of case studies is the main method, with the use of focus groups to increase the conclusion validity and to discuss the recommendations introduced as a result of the field research.

The decision to use multiple-case studies was based on the ability they give to gain a rich understanding of the context of the research and processes that are being enacted (Morris & Woods, 1991). Case studies can be defined as "a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence" (Saunders, et al., 2007:139) Case studies are concerned with different functions, relationships, or events. They may involve a study of historical, present or future condition, or a mixture of them all, and the method of data collection can be quantitative or qualitative.

Case studies might be single or multiple. Multiple case studies will enhance the opportunity to generalize from the findings (Yin, 2003). Generalization can be defined as the "making of more widely applicable propositions based upon the process of deduction of specific cases" (Saunders, et al., 2007) (page 599). Or as Silvermann (2005:126) puts it: "The extent to which a finding in one setting can be applied more generally". Generalization is a standard aim in quantitative research and is normally achieved by procedures of statistical sampling. However, although generalization is identified with statistical procedures and quantitative research where the aim is to determine "how much, how often, and how many (Normann, 1970:89) it can also be achieved through another dimension, such as the use of in-depth studies based on exhaustive investigations and analysis to identify certain phenomena.

Generalization is important for any kind of research, whether it is defined as quantitative or qualitative. "We try to find out something that will apply to everything of a certain kind by studying a few examples",..... and as such...."persuade people that we know something about the whole class"(Becker, 1998:67). Generalization is closely related to the word validity, meaning that a "theory, model, concept or category describes reality with a good fit, just as a

good map properly describes Earth” (Gummesson, 2000:93). Research where the map does not properly describe Earth will be at risk of being neglected. There has been a frequent criticism of case studies that they are inferior to methods of research based on random statistical samples (Gummesson, 2000), “impossible” in case study. The data used in case studies are derived from one or more cases, which are not selected randomly. However, an important issue in order to generalize is theoretical sampling, defined as “selecting groups or categories to study on the basis of their relevance to your research question, your theoretical position..... and most importantly, the explanation or account, which you are developing” (Mason, 1996:93-94). The choices made in this research regarding the process have been identified above, and they have been argued for in terms of paradigms, concept and theory. The awareness of the research process has affected the research design, how data will be sampled and, as such the ability to generalize from the findings. There is no **one** way to do research. Generalizing is about understanding the research process, and, as such, being able to design the process, but also the ability to change your research design during the process if necessary in order to secure generalizing. There are numerous case designs available in research. Researchers (Andersen, 2003; Stake, 2000; Yin, 2003) identify different possible case study designs. The main focus when discussing the ability to generalize from case studies must be the case study design. A weak design will at the end of the day affect the ability to generalize from the findings. As indicated, the multiple-case approach has been selected to give a better possibility to generalize from the empirical study. The literature identifies different possible case study designs (Andersen, 2003) where the most obvious choice of design is found within case studies characterised by theory motivated case studies. These cases can be either deductive or inductive, or a combination of the two. It is common to divide these case studies into two; those case studies aiming to develop concepts or add to already existing concepts (Andersen, 2003), and those generating or testing hypotheses. These two case study designs use the same logic, but what is tested in case studies developing concepts or adding to already existing concepts is that these studies test the validity of the design assumption, not the probability of specific causal relationships or distribution of them. A main argument for using case studies is the assumption that the theory does not adequately cover the empirical phenomenon faced with. As discussed in chapter two, although the concept of board evaluation is introduced within the field of corporate governance, the link between the concept and theory is under-developed, possibly due to the fact that little empirical research has been conducted. As such, this case study will contribute to developing the concept of board evaluation. In addition, based on the ability to generalize from the findings, this case study will contribute to the generation of hypotheses through the development of the concept of board evaluation. There are different approaches available when designing and selecting cases to include in the research. The first approach is to focus on cases that are similar regarding every possible variable except the differences we want to explain. Or we perform case studies on case studies that are deviant except for the specific issue being researched. This research is classified as the former. The unit of analysis, the process of board evaluation, is performed by all the cases included in the research, and may thus be defined as similar. By performing case studies of several board evaluation processes it

is possible to compare the different processes and to make some generalisations. The fact that the case studies are performed in boards which are deviant in terms of the number of board members, their experience, their background and the task they perform, adds to the possibility of generalizing from the findings. The fact that the companies deviate in terms of size, industry, life cycle and structure of ownership is another element contributing to the possibility to generalise. Another possibility was to use a focus group. Focus group interviews are conducted on a small group of people on a specific topic (Jonsson, 2007). The collection of data is thus done through group interaction on the topic decided by the researcher (Morgan & Piercy, 1996). An argument against using this method can be found in one of the descriptions of the method; that the topics which are discussed on the focus group are narrowly focused, and the aim of the focus group is to seek reaction to something, such as a product, a program or a shared experience (Patton, 2002). In this research the purpose of getting a thorough understanding of the approaches of board evaluations in Norwegian listed companies was difficult to achieve through the use of a focus group, as the amount and comprehensiveness of data collected through focus groups were considered to be lower than when collecting the data using multiple-case studies. This was due to the fact that the data collected about the board evaluation might be considered to be confidential, and thus the board members might be reluctant to share their experience in an open forum like this. Also, the individual board members views and thoughts are considered better collected when meeting the director one on one. Based on these arguments, the use of focus groups for collecting data was rejected. However, it was decided to use the focus group as means of triangulation. Triangulation can be useful to increase validity of a research, and depending on when in the process the focus group is used, may have the ability to increase the external, internal, construct and conclusion validity (Bickman & Rog, 1997; Jonsson, 2007; Scandura & Williams, 2000; Smith, 1997). In this research, triangulation is used to increase the conclusion's validity by inviting 11 persons to a focus group meeting where the findings and the recommendations of the research will be discussed. The process of the triangulation by means of conducting a focus group will be presented and discussed in chapter six.

3.1.4 Deciding on a qualitative or quantitative approach

As indicated above, a multi-method approach was decided on. A multi-method approach can either use two quantitative approaches or two qualitative approaches (Saunders, et al., 2007). The case study approach can be both quantitative and qualitative although it has been noted by Yin (2003) that the use of case studies is often considered to be a qualitative method. The choice of method is influenced by the research proposition of this research and the identified methodological and philosophical approach identified in section 3.1.1 and 3.1.2. However, due to the nature of the research proposition and the fact that access to board members was granted, the use of interviews was decided on. Although interviews can be defined as a quantitative method if the questions are closed and easily quantified, most interview techniques are defined as qualitative (Patton, 2002). Although there are several possibilities regarding qualitative interviews, such as informal conversational interviews or a general interview guide

approach, the method decided on was the standardised open-ended interview. Arguments for using this approach were identified by (Patton, 2002:346):

By using an open-ended standardised interview, the exact instrument used in data collection is possible to inspect by those who will use the result. Standardized interviews will make analysis of the result easier, and comparison between the responses can be made. Also, the use of standardised interviews was considered important to increase the focus of the interviews, and thus to use the time given by the interviewees as efficiently as possible. Last but not least, the choice was made based on the argument that the interview had to be conducted within a time limit, given that board members are busy people. Board members are considered to be hard to hold to the script (Stiles & Taylor, 2001a), which supported a structured interview to ensure responses to most of the questions.

3.1.5 Summary of the chosen research process

This section focuses on methodology in a wider context. Through the use of Silverman's 7 levels of analysis, the rationale behind my choices was identified and discussed. The paradigm of choice is social constructionism and the research is exploratory in nature. Given that board evaluations are about assessing the tasks that boards perform, and no **one** corporate governance theory can explain the different tasks boards perform, a multi-theoretical approach has been chosen. In addition, given that the existing literature does not discuss the connection between the concept of board evaluation and corporate governance theories, an inductive research approach has been adopted. These above mentioned conclusions regarding the research process guided me in choosing an inductive approach and have guided me in making the best choices regarding methodology in order to meet the objective of the research. In this research, a multi-method approach has been applied. The main method in this research is multiple case studies where the board evaluation process is the unit of analysis. The data collected is both secondary and primary, where the primary data collected is by interviews using an open-ended questionnaire, interviewing on average three board members in each company. The secondary data is collection of the evaluation form they use when conducting board evaluations. The second method is using a focus group to validate the result of the analysis in addition to discussing the recommendations made from the research study.

3.2 Implementing the chosen research process

In this section, the implementation of the different elements of the research process identified in section 3.1 will be identified and discussed. The section starts with identifying and discussing the sampling procedure (section 3.2.1).

In section 3.2.2, the development of questions is discussed, and the process leading to the process of performing the interviews will be discussed. In section 3.2.3, the process of analyzing the data will be identified and discussed.

3.2.1 Sampling of cases

As discussed in section 3.1.3, multiple case studies are chosen. With the unit of analysis being the board evaluation process, sampling procedure should ensure selecting listed companies that conducted a board evaluation. The sample frame used in this research is the 25 largest companies, representing 82.2 % of market capitalization as of 31.12.2007. The reasoning behind choosing the 25 largest companies as the sampling frame was the assumption that these larger companies have better possibility and motivation to comply with the Norwegian Code of practice of Corporate Governance. Moreover, it is assumed that they have more dispersed ownership, higher liquidity in the share, and greater attention from financial analysts. The sampling frame represents all but one of the different sectors represented at the Oslo Stock exchange as seen below:

Table 3.2.1 Sample frame by industrial sector

Sector	Number of companies in sample
Energy	10
Materials	3
Industrial	3
Consumer discretionary	1
Consumer staples	1
Health care	
Information Technology	1
Financial	3
Telecommunication services	1
Utilities	2
TOTAL	25

Although the sampling criteria used is whether or not the company performs board evaluation, it was considered useful to build a database through the sample frame which gave me the possibility to perform analysis at different levels, either in this research or for use in future research. Given that the sampling frame represented a dispersed variety of industrial sectors, comparisons between the different industries regarding board evaluation would be possible. Another level of analysis was identified as being comparisons regarding board evaluations based on different company characteristics, i.e. owner characteristics and board characteristics as identified. Such comparisons could be done within industries, between industries, or at a general level disregarding industrial classification:

Identified company characteristics are:

Number of companies in the group
Number of countries in which the company is present (location of subsidiaries)
Geographical distribution of revenue (based on customer location)
Where the company is listed
Number of employees (in Norway and abroad)

Identified owner characteristics:

Largest Norwegian owner (%)
Largest foreign owner (%)
Largest 20 owners (%)
Total number of shareholders

Identified board characteristics:

Number of board members
Number of board meetings per year
Foreign board members
Employee representatives on board
Total number of years current board members have on this board (may indicate level of experience and continuity)
Number of other board memberships board members have in total (both in listed and unlisted companies)
Total number of current board memberships these board members have in other public companies (ASA)

The Chairperson of the board:

How many board memberships the Chairperson has
Their current experience as board members in other listed companies
Their current experience as chair persons in other listed companies

The companies in the financial sector (3) were excluded from the sample because they are subject to different a different set of regulations than other companies, which again will influence corporate governance and processes. The two companies in the utility sector are actually one company, as the shares (A and B shares) are listed separately. Indicated by the annual reports of these companies, only 15 of these companies had performed board evaluations. However; many of the companies assumed not to perform board evaluation based on the information given in the annual report did not explain why they had not complied. Given the low transparency regarding board evaluation, it was decided to send a letter to all the remaining companies in the sampling frame. A total of 21 letters were sent out. A copy of the letter can be found as appendix 3.1

The letter was addressed to the Chairperson of the board in the company, with a copy to the CEO of the company. The reasoning behind sending a copy of the letter to the CEO was to ensure he/she was informed about my request, and that the CEO's assistant received a copy of my request (see below). Although the CEO does not have a seat on the board, he/she is obligated to attend board meetings. Letters not responded to within a week were followed up by telephoning the CEO's assistant/secretary. In many companies, the CEO assistant functions as an intermediary between the CEO and the board for any practical functions and were thus considered an important person when establishing contact. Through this call, I was able to establish whether the letter was discussed and processed, and possibly influence the procedure. In addition, it enabled me to send an email to the Chairperson with a follow-up request. The email address of the Chairperson was either given to me by the CEO assistant, or the follow-up email was sent through the CEO assistant. In some cases, the Chairperson's telephone number was provided, enabling me to call the Chairperson to ask whether he was willing to contribute.

It is important to understand that the request was sent out in mid August 2008, just at the beginning of the financial crisis, a very busy time for many of the boards of listed companies in Norway. A request to contribute to a research was not the most urgent matter to attend to. However, some companies found it useful to contribute because of the financial crisis on the notion that agitated times would possibly require a new approach to board evaluation. Some companies responded quickly, while other companies used some time to consider my request, often because the Chairperson wanted to discuss this with the Board collectively before deciding. Table 3.2 gives the result of my request to contribute to this research:

Table 3.2.2 Overview of sampled companies compared to sample frame

Sample	Of which perform board evaluation (according to the annual report)	Willing to contribute	Percentage of the total companies communicating board evaluation is performed
21 (100 %)	15 (71.4 %)	9 (42.8 %)	60 %

Having established the companies to implement in the research, the next step was to decide the board members to interview. In this part of the process, it was considered important for my success to run the process through the Chairperson. Acknowledgement from him regarding contribution to the research was important when approaching the individual board members with regard to their contribution. The fact that the Chairperson contributed made it easier to get a positive response from the individual board members. In order to meet the set purpose of this research it was important to select board members whose board membership was based on different characteristics and "position" on the board, as this was assumed to have an influence on their approach. The Chairperson was always interviewed, given his position and overall responsibility for board task performance and the fact that it was assumed his membership was based on the choice of the owners (through the Nomination Committee) without having to meet

any external requirements given by the law or the recommendations of the Norwegian Code for Practice of Corporate Governance (see section 3.3.2). The employee-elected board member was selected as an interviewee based on the fact that he/she is not elected by the general meeting. The third board member to be selected as an interviewee was the board member elected based on the recommendations given in the Norwegian Code for Practice of Corporate Governance (NUES), the defined independent board member (see section 2.9 for definition). Given that the Norwegian Public Companies Act establishes gender representation at 40 %, it was decided that one of the interviewees within the three categories should be a woman, thus establishing four categories of board members:

- Chairperson
- Independent board member (defined by NUES)
- Employee-elected board member
- Woman

All board members were identified through a database called “Proff-Forvalt”. This database gives information about how many board memberships the board member currently holds, and the length of his or her tenure on this board. This information gave me an indication as to who I wanted to interview in each company. However, my suggestions were always run by (discussed with) the Chairperson before I approached the individual board members. The board members were informed about my contact with and approval by the Chairperson when I approached them, which seemed to have a positive effect on board members’ willingness to contribute. In fact, all board members approached after getting the approval from the Chairperson agreed to contribute to the research.

This section has described the process of selecting the companies and board members to implement in this research. For reasons described in section 3.1.3 and 3.2.1, a non-probability sampling method was chosen, using the 25 largest listed Norwegian companies based on market capitalization as of 31 December 2007. This was used as the sampling frame, and three companies were taken out based on the grounds that they were financial companies. Below is a table showing the selected and final number of companies contributing and what percentage of total market value of Norwegian listed companies these companies’ represented.

Table 3.2.3 Comparison sampled companies to listed companies Oslo Stock exchange

	No of companies	% Total number of companies Oslo Stock Exchange	Market value	Market value total	% of total market value
Selected	21	10 %	1 439 203 617	1 927 208 513	74,7 %
Contributing	9	4.3 %	1 269 116 328	1 927 208 513	65,1 %

The next step of the research process was to develop the questionnaire for collecting data. This process will be described in section 3.2.2.

3.2.2 Developing the questionnaire

As described in section 3.1.4, it was decided to develop a standardized open-ended questionnaire as the basis for the interview. Standardized questionnaires will make analysis of the result easier and comparison between the responses can be made. Some literature (Bryman, 2004; Saunders, et al., 2007) refers to this as a quantitative interview, with the purpose of quantifying the answers. But as indicated above, the arguments for choosing this approach are based on other issues than the ability to quantify answers. However, acknowledging that gaining access to interview board members is difficult, it was important to use a method which gave the possibility for future research in addition to this research. This method is considered flexible and comprehensive in that it provides the advantages connected with using the qualitative interview method -- such as giving the interviewee the possibility to elaborate on issues increasing the richness of the data, the possibility to ask follow-up questions etc. -- and at the same time conducts the interview in a structured manner, ensuring the data collected could be used to compare and contrast.

As the basis for designing the interview, the model developed by Minichilli (2007) and described in section 2.10.1 was used. As described, this research is systemizing previous and own research on board evaluation, arguing that effective board evaluations are characterized by a link between the purpose and the system of board evaluations. By designing the questionnaire based on this model, the data gathered will enable me to establish the perceived actual model of board evaluation per company and across companies as identified in research proposition one. By using this model when designing the interview, analysis to conclude whether there is a fit between the purpose and the system at company level and across companies can be performed. It will also enable me to answer research proposition two, where the purpose is to identify the approaches board members have towards board evaluations. The interview questions identified through this model will gather data regarding previous board evaluations. To meet the purpose set in research proposition three, additional questions to identify a preferred model of board evaluation were included. This was done by adding an additional question asking whether the perceived actual element of board evaluation (the "why"/"for whom"/"what"/"how" "who" etc.), aligned with what they would prefer. Comparisons between the identified perceived actual and the preferred models of board evaluation were used to meet the purpose of research proposition four: to what extent the field research could be used to build a model for board evaluations for listed companies in Norway. The questionnaire was pilot tested with two interviewees, both currently board members in several listed companies. The interviews were conducted as realistically as possible with the use of a recorder. The interviews were conducted on a location chosen by the interviewee, as this was the chosen strategy for the real interviews and it was considered to give the interviewee most confidence. The purpose of this pilot testing was to quality assure the questions included, to check the timing of the interview, the level of information supplied to the interviewee, the appropriateness of my

appearance in terms of my opening comments and my appearance through the interview. Through the pilot test, some questions were raised regarding how the interview was structured and when in the interview the questions appeared. As the structure of the interview followed the model, it was decided against changing the structure. One of the main advantages of gathering data by interview is the fact that I would be able to assist during the interviews regarding any logic and reasoning behind the questions which would overcome the obstacles of subjective reasoning by the interviewees regarding this. The time used interviewing was about one and a half hours. Acknowledging that interviewees are different in terms of how much they want to share through the interview and thus the time used interviewing will deviate; these two interviews gave me an indication that I would have to tell the interviewees that the interview would take about 1.5 hours.

Although the pilot testing did not lead to any changing of questions, it was decided that the interview questions should be sent out to the interviewees before the actual interview. This decision was based on the experience gained from sending the questions beforehand to one of the interviewees. Sending out the questions beforehand gave the interviewee the opportunity to reflect on a process that is not performed very often, and it was assumed that this would increase the credibility of the interview. The pilot test interviews were taped as are all the interviewees included in the research. This gave me valuable input regarding my own appearance and conduct during the interview regarding my opening comments and how I communicated to the interviewees.

As indicated above, some adjustments were made based on the pilot testing of the interview. It was decided to send out the questions beforehand to give the interviewees the opportunity to reflect on the questions before we met (appendix 3.2). In addition, a letter following the questions was sent, giving the interviewees some information about the interview process and a statement about the confidentiality of the interview (appendix 3.3).

3.2.3 Analyzing the data

The interviews performed were transcribed, and translated to English before analyzing them. For analyzing purpose, software developed to help analyze qualitative data, NVivo 8, was used. As I had no previous experience regarding analysis of qualitative data, it was considered important for analyzing purposes to conduct investigation about the existing possibilities regarding this. As the Norwegian School of Management held 50 licenses for NVivo 8, it was considered to be a convenient solution to use this software, given that the quality of this software met with my needs. NVivo 8 is software which enables the researcher to store and code collected data electronically. In addition, the software is useful as a presentation tool. As little knowledge regarding the use of NVivo 8 existed both at the Norwegian School of Management and Cass Business School, I obtained the needed knowledge about using the software by attending a two-day course in NVivo 8 in Bristol. Through this course I learned how to use the software. One of the purposes of using a standardized interview when gathering data was the ability it gave me when analyzing the data. The coding of the interview is thus based on

how the interview is structured. However, during the coding process, some adjustments were made regarding the coding based on the experience gained. The main purpose of this adjustment was to make the coding as simple as possible, but at the same time as comprehensive as needed to reflect the expressed views of the interviewees. A full overview of the coding is shown in appendix 3.4.

3.3 The research project in context

In this section some of the particular characteristics of the Norwegian corporate governance system are presented. The purpose of this is to give the reader a better understanding of the context in which the research is conducted. The presentation is divided in two: first, a presentation of the shareholding and shareholders of Oslo Stock Exchange will be given as the research is conducted on Norwegian Listed companies. Secondly, the section gives a presentation of how Norwegian listed companies are organized in terms of existing bodies.

3.3.1 Shareholding and shareholders

Concentrated market value

A distinct feature of the Oslo Stock Exchange is the strong concentration of market value. The 25 largest companies (11% of the total number of companies) represent almost 86% of the total market value of Norwegian listed companies (OsloBørs, 2009). Statoil, the oil company, alone represented more than 40% of total market value.

Table 3.3.1 Largest domestic companies on Oslo Stock Exchange by market value

The largest domestic companies by market value 31. December 2009		
Company	Market value	Of the total
	NOK 1000	%
Statoil	461 716 101	35,16
Telenor	134 371 891	10,23
DnB NOR	102 207 129	7,78
Yara International	76 888 422	5,86
Norsk Hydro	60 405 768	4,60
Orkla	58 494 726	4,45
Renewable Energy Corporation	29 748 372	2,27
Aker Solutions	20 673 300	1,57
Tandberg	18 476 938	1,41
Storebrand	17 798 435	1,36
Marine Harvest	15 125 395	1,15
Fred Olsen Energy	14 806 119	1,13
Schibsted	14 051 270	1,07
Hafslund	13 534 483	1,03
Petroleum Geo-Services	13 167 000	1,00
Aker	11 688 519	0,89
TGS-NOPEC Geophysical Company	10 905 726	0,83
Kongsberg Gruppen	10 590 000	0,81
Olav Thon Eiendomsselskap	8 196 290	0,62
Austevoll Seafood	7 318 097	0,56
Bonheur	6 689 447	0,51
Veidekke	6 658 506	0,51
Norwegian Property	6 119 156	0,47
Wilh Wilhelmsen	6 094 118	0,46
SpareBank 1 SR-Bank	6 010 406	0,46
sum 1- 5	835 589 311	63,63
sum 1-10	980 781 082	74,69
sum 1-25	1 131 735 614	86,18
sum 26-50	103 148 518	7,85
sum 51-	78 313 848	5,96
Sum all	1 313 197 980	100,00

Adapted from Oslo Stock Exchange (annual statistics)

The energy sector, including Statoil, is by far the largest on the Oslo Stock Exchange, representing about 50% of the value in terms of market capitalization.

The Norwegian state is the main shareholder of Statoil, Telenor, Yara International, Norsk Hydro, DnBNOR (bank and financial services) and Kongsberg Gruppen, but it also has large shareholdings in Aker Solution. Just a very minor part of the market capital on the Oslo Stock Exchange is represented by dispersed ownership.

As can be seen from table 3.3.2 below, the Norwegian government is by far the largest shareholder in the Norwegian market, owning 39.5% of the shares in Norwegian listed companies in terms of market value as of 31. December 2008, and 37.5 % as of 31. December 2009.

The shares are owned directly through the Norwegian government holdings of shares (35.1%, based on market capitalization) (Nærings og Handelsdepartementet, 2009). The rest, 4.4% is owned indirectly through the government pension fund Norway (Folketrygdfondet, 2009).

Table 3.3.2 Shareholder structure Oslo Stock Exchange at year end % of market value

Year	2001	2002	2003	2004	2005	2006	2007	2008	2009
Sector									
Government and municipalities	38,2	43,1	41,3	37,0	34,4	31,6	30,3	39,5	37,5
Companies with government ownership	0,8	0,7	0,8	0,6	0,5	0,2	0,3	0,3	0,3
Banks and mortgage companies	1,8	1,4	1,6	1,9	1,0	1,2	1,1	1,3	1,9
Private pension fund/Life insurance	4,9	2,9	3,2	2,8	2,4	1,9	1,8	1,3	1,7
General insurance	0,4	0,7	0,6	0,6	0,4	0,3	0,2	0,3	0,4
Mutual funds	5,2	4,2	4,6	4,2	3,9	3,8	3,6	3,8	5,3
Private companies	13,5	14,1	14,5	14,8	15,6	17,5	18,3	16,9	14,7
Private investors	5,9	5,4	5,5	5,3	4,7	3,7	3,6	3,8	4,1
Foreign investors	28,0	27,0	27,8	32,8	37,1	39,7	40,8	32,8	34,0
Unknown	1,3	0,5	0,1	0,0	0,0	0,0	0,0	0,0	0,0
Total	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0

Adopted from Oslo Stock Exchange (annual statistics)

The Governments as an owner

The table above shows the importance of understanding the role of the state in Norwegian corporate governance. As a large owner, the Norwegian State has the opportunity to influence corporate governance practices. To ensure that companies defined as wholly or partly state-owned and the state itself enjoy the market's confidence, the Norwegian state issued in 2007 the state's principles for good ownership to clarify the Norwegian state's role as a large owner. These principles are quoted below. The principles are in accordance with generally accepted principles for corporate governance.

The state's principles for good ownership (Regjeringen, 2009):

- Shareholders shall be treated equally.
- There shall be transparency in relation to the state's ownership of the companies.
- Decisions and resolutions by the owner shall be made/passed at the general meeting.
- The state will, if applicable together with other owners, set performance objectives for the companies.
- The board of directors is responsible for the objectives being attained.
- The capital structure in the companies shall be adapted to the objective of the ownership and the company's situation.
- The composition of boards of directors shall be characterised by competence, capacity and diversity based on the distinctive nature of each company.
- Remuneration and incentive arrangements should be designed so that they promote value creation in the companies and are perceived as being reasonable.
- On behalf of the owners, the board of directors shall have an independent control function vis-à-vis the company's management.
- The board should have a plan for its work and should work actively on building its own competence. The board's work shall be evaluated.
- The company shall be conscious of its social responsibilities.

3.4 Summary and research implications

In this chapter, the research methodology in this research has been identified and discussed. The chapter started by providing arguments for "why" things are done from a philosophical and methodological point of view, and goes on to explain "how" and "what" has been done in the process. The last section of this chapter provided information regarding the context in which this research has been conducted. The purpose of this section was to give the reader a better possibility to understand the findings in this research. The main points from this chapter are: The research paradigm adapted is social constructionism.

The research is exploratory in nature.

A multi-theoretical approach has been adopted. This is because board evaluations are about assessing tasks performed and no single theory can explain the different roles boards have or the tasks they perform.

An inductive approach is adopted based on the lack of material regarding the link between the concept of board evaluation and (corporate governance) theories in the existing literature.

A multiple-case study methodology has been adopted in which the chosen design can be characterized as theory motivated. The unit of analysis -- the process of board evaluation -- is performed by all the cases included in the research and the case studies are thus defined as similar. By performing case studies of several board evaluation processes it is possible to compare the different processes and to make some generalisations. The fact that the case

studies are performed in boards which are deviant in terms of the number of board members, their experience, their background and the tasks they perform adds to the possibility to generalise from the findings. The fact that the companies in which these boards are acting deviate in terms of size, industry, life cycle and structure of ownership is another element contributing to the possibility to generalise.

The cases studied are 9 cases of which all perform board evaluations. The data collected is both primary and secondary data. The main data is collected through the use of primary data using standardized open-ended interviews. Three different board members (Chairperson, employee-elected board member, and the defined independent board member) in each case are asked the same questions.

Data analysis is performed by using NVivo 8.

Triangulation by means of focus groups, including board members both included and not included in the research, will seek to increase the internal and external conclusions' validity. In addition, general views on the conclusions and recommendations will be sought by also including persons responsible for developing existing recommendations on board evaluations and external consultants currently using the recommendations.

The next two chapters will present the analysis performed and the findings of this research both at company level (individually and across companies) and at individual board member level (per company and across company).

Chapter 4 - Analysis of the interviews (1) - Individual companies and interviewees aggregated analyses

4.1 Structure and presentation of analysis

The results of the findings are presented as follows. Section 4.2 to 4.11 present detailed analyses of each case included in the study. The focus of these analyses is to identify interviewees' perceived actual model of board evaluation. Gap analyses between the different perceived models are performed and possible reasons for these gaps are suggested. Further, gaps between individual board member's perceived model of board evaluations and their possible preferred model of board evaluations are presented and discussed. Finally, based on analysis of responses from interviewees and board evaluation forms used, (as far as access to these has been granted), a perceived actual model of board evaluation per company is presented.

Findings in the individual cases are brought forward and discussed at an aggregated level in section 4.12, consolidated analyses, with the purpose of identifying similar gaps across companies and possible reasons for these gaps. The identified perceived actual and preferred models of board evaluation per company identified in this chapter will be carried forward to chapter five. Here, the findings in chapter four will be used to identify an aggregated perceived actual model of board evaluation implemented in Norwegian listed companies and elements influencing it. In addition, an aggregated preferred model of board evaluation will be identified and discussed. The identified aggregated models of board evaluation identified through the analyses in chapter four and five will then be used as input in developing a suggested model for board evaluation in Norwegian listed companies, also presented in chapter five.

See table 4.10.1 for an overview of the different levels of analysis.

The analysis structure as identified in table 4.1.1 below:

Table 4.1.1 Structure of analysis

Element	Explanation
<p>Purpose of the evaluation (Why)</p> <p>Purpose of an evaluation can be one or a combination of the following elements</p>	<p>Purpose can be related to several aspects of boards' work, whether it has internal or external focus:</p> <p>Internal focus:</p> <p>Board effectiveness: Evaluation is designed to decide to what degree boards' performed tasks align with set goals for their work</p> <p>Board processes: Evaluation of the processes related to boards' work, both input to the board and internal processes within the board in relation to decision making</p> <p>Board structure: Related to how the board organizes its work both in relation to the actual board meeting (timing, length agenda etc), but also in relation to how sub-committees work and report to the board</p> <p>External focus:</p> <p>Assessment against laws and codes: Purpose is to assess actual board work against laws and codes to see whether the board fulfils external requirements</p> <p>Benchmarking: Purpose is to compare actual performance against other boards</p> <p>Competence: Purpose is to assess current competence (both formal and personal) to evaluate whether the current composition is optimal in relation to what the company's contingent needs</p>
Intended communication of the result (For whom)	This element seeks to identify the recipient(s) of the results of the evaluation
Content of the board evaluation (What)	This element seeks to identify the specific content of the board evaluation: the categories mentioned under "purpose" apply here as well
Evaluator (Who)	This element seeks to identify who is involved in the process, from developing the evaluation, via collating and analyzing, to presentation of the results
Modality used (How)	This element seeks to identify how the evaluation is conducted. Whether it is quantitative or qualitative, whether is it an individual evaluation of the board collectively, individual evaluation of own effort etc.
Clear secondary goals (How)	This section tries to identify to what extent clear secondary goals have been set regarding the content to decide what represents goal attainment
Discussions of the result (How)	This element tries to identify for how long the results and possible consequences are discussed
Timing of the board evaluation (When)	Identifies how often the board evaluation is performed and possibly the timing of it
Follow-up Internal	Tries to identify what measures are taken by the board in relation to the evaluation results
Follow-up External	Tries to identify what measures are taken by the Nomination Committee based on the evaluation results

Abbreviations used in the analysis:

CP: Chairperson

IBM: Independent board member (IBM 1 and IBM 2 if several independent board members)

EEBM: Employee-elected board member

OR: Owner representative

CRC: Chair of Remuneration Committee

In the analysis, with “board members” is meant the IBM, EEBM, or OR, not the Chairperson.

When analyzing the evaluation form used in the board evaluation, the questions/statements have been categorized using the following structure:

Board’s role: Questions or statements with a normative angle about the role of the board.

These questions/statements try to identify to what degree the board spends enough time on different tasks identified as important in relation to the board’s work, such as strategy, control or advice.

Board processes: Questions or statements which are related to the input to the board, how the board organizes their work (e.g. board sub-committees), how the board meetings are structured (e.g. agenda, time, etc), and how board meetings function (discussions etc).

Board competence: Questions or statements related to board members professional background or their contribution towards the board’s work (whether it is related to their preparedness or participation, or their ability to work as a team).

Chairperson: Questions or statements related to the Chairperson’s role, and the conduct of this role.

Compliance to laws and codes: Questions or statements related to whether the board fulfils requirements stated in laws and codes, such as e.g. board member independence and whether they have performed specific tasks identified in the law, such as approving and signing of financial accounts.

Board’s evaluation: These are statements or questions not defined as part of board evaluation, but the board’s evaluation of others, such as typically the company and its management.

The analysis at company level is structured as follows:

The analyses at company level are performed in section 4.2 to 4.10, with four sub-sections for each of the companies.

The first section in each case study gives the reader some information about the company in which the research is performed and its board of directors.

In the second section a gap analysis between the interviewees’ perceived model of board evaluation is performed and suggestions as to why the gap exists are presented. In section three, analyses are performed to decide to what extent interviewees’ perceived model of board evaluations deviate with their preferred model. Section four gives a summary of the gap analysis performed in each company and based on the analysis presents a perceived actual model of board evaluation for the company.

4.2 Company S1

4.2.1 About the company

Taken out for anonymity purpose

4.2.2 Gap analysis of interviewees' perceived models of board evaluation S1

Based on the analysis performed, several gaps between how the interviewees perceive the model of board evaluation were identified. These are identified and discussed below in terms of possible reasons why they exist.

“Why” Purpose of the evaluation

Both board members perceive the main purpose of the board evaluation to be related to board competence, giving the Nomination Committee input which can be used in the nomination process:

“The main objective of a board evaluation is to provide the nomination committee with material to evaluate the board’s efforts. I wouldn’t really call it training, rather an improvement of the board’s work.”(IBM)

“Yes, the last board evaluation was closely associated with the last and the second to last bullet points, which is to provide the Nomination Committee with basic materials..... And much of the basis from that evaluation was to give the Nomination Committee some input on whom to bring over to the new board because that was to consist of people from both boards.” (EEBM).

There is a gap between the two board members regarding to what degree the purpose of the board evaluation is discussed at board level:

“Yes, in a discussion. (Does that take place beforehand so that you all know where you are going with it?)Yes, I think it is quite clear that we are evaluating ourselves and in this way find out how we can improve. I see it as quite obvious.” (IBM)

“Well, the objective was communicated relatively clearly, but it was largely left to this consultant, and they use one of those standard forms, and I don’t think it was especially made for this company, it was a form and a method they use for different companies I think. So the influence you have directly on the survey is rather small” (EEBM)

Why the gap?

The gap exists because of different perceptions about what can be defined as discussion. The IBM indicates that the boards is informed about the evaluation taking place and defines this as a discussion.

“For whom” Intended recipients of the result

While the EEBM identifies the board, the Nomination Committee and management as recipients of the result, the IBM does not identify the management as recipients:

“It’s usually the board itself and the nomination committee that receive the evaluation, ref the purpose.” (IBM)

“(The nomination committee gets it I suppose and the board too?).....It goes to the administration too, to the people from the administration that takes part in the board meetings, they get it as well.” (EEBM)

There is also some uncertainty regarding how much and how the information is given to recipient;

“It’s the board that receives it, and the Nomination Committee. But.....do they get the entire evaluation or a summary from board chair? I think they get a presentation, and I think they get it from, I don’t really know – either from the board chair or from the external consultant”in S1 it’s the consultant who picks out the important statements. (IBM)

This is further acknowledged by the IBM when expressing that it is the external consultant who picks out the statements to be presented and discussed.

According to the EEBM, the external consultant gives the board a presentation based on the findings which lasts for 15 minutes, indicating that the board members do not have access to the whole report;

“Yes, the report is sent out with case documents to the board and the consultant presents it at a board meeting.....There is a presentation, 10-15 minutes...” (EEBM)

Why this gap?

Regarding difference in perceived recipients, discussions related to this appear absent. There are no internal board discussions regarding who should get the result. Regarding the differences in perceived methods of communicating the result, and the content of them, the gaps are also related to missing knowledge about the process. It is the Chairperson who controls what is communicated and how it is communicated. If this is not communicated to board members, the gap will persist.

“What” Content of the evaluation

Both the IBM and the EEBM identify issues related to board processes, board structure and board competence to be a part of the board evaluation:

“Number 3 – yes, absolutely. That is just what we were talking about, ways of working and culture..... How we work as a team, yes, we touched on that. Critical thinking and openness, yes, we have covered them in the board evaluation. Also being prepared for board meetings..... Number 4,The committees, we have a remuneration committee and an audit committee; we have discussed how they work and also how the chair conducts his work. We have covered all these things in a board evaluation.” (IBM)

“Number 5, there has to be people who know the business, and some with more general experience.” (EEBM)

“In the board evaluation the culture of the board and its ways of working were evaluated to see to what extent they contributed to value creation. YES. To what extent are the board members involved in the board’s work and are they well prepared for board meetings. YES. In the board evaluation the composition of the board and its organisation is assessed, to assess whether it is adequate relative to the actual work done by the board. YES In the board evaluation the board members’ background and competence were evaluated relative to the company’s strategic goals and the company’s needs. YES” (IBM)

Although the interviewees both identified the purpose of the board evaluation to be related to assessing the competence of the board in terms of giving input to the Nomination Committee (external purpose), they both identify much of the content to be related to board processes (internal purpose).

“Who” Performing the evaluation

The two perceptions aligned except regarding development of the questions. While the IBM identifies this as cooperation between herself, the Chairperson and the external consultant; the EEEM does not identify other persons involved in the process than the external consultant.

“I have worked with the conducting previously as well. And I have had some input to the questionnaire. It’s probably that I have made most of the suggestions. I think the questionnaire stems from a sum of other Norwegian companies’ board evaluations. When I state that it’s not ideal, it’s simply because the questions are badly formulated..... (But it’s made by an external consulting company that you use?) Yes. It is actually, but I think it has been formulated with quite a lot of input from me. So I don’t know how hard they have worked to make it, I don’t really know. “(IBM)

The gap here is possibly related to the differences in involvement in this part of the board evaluation. The EEEM is not involved in the process other than responding to the questions or statements given.

Rationale behind the use of an external consultant:

In my interview with the current Chairperson he expresses the importance of using the external consultants’ network to get information about what other boards do, especially internationally:

“The reason for using an international consultant in S1 is that we are interested in getting impulses from international board evaluations. From companies that is similar to ours.” (CP)

The EEBM mention factors like time and independence as being the rationale behind choosing the external consultant.

The IBM indicates that the reason for using an external consultant is to assure a neutral Chairperson:

“It’s a sensitive area, that if the chair is a very controlling type of person and there also is a problem with the board - that could be very sensitive……. And so it’s quite relevant in the case of the board chair that it’s a good idea to use an external advisor.” (IBM)

Why this gap?

None of the interviewees mention benchmarking as a purpose of the evaluation, and no information exists to confirm or set aside the statement made by the current Chairperson. The board members do not express any knowledge of this. For the EEBM it might not be an important factor. For the IBM this might be a common experience and therefore not reflected upon. In order to benchmark, it is obvious that questions need to be fairly standardized. As identified in previous analyses, these standardized questions are not necessarily adapted to the situation of the company. That might be the reason why the IBM found the questions “not ideal”. Of course, it might be that benchmarking has not been done previously, but is something the new Chairperson wishes to do.

It might also be that the introduction of an external consultant was related to some internal problems on the board as indicated by the Chairperson:

“There is no doubt that when this started in this company there were some tremendous problems in the board with employee representatives that made all the members of the board sort of insecure at what they could and could not say in case it got into the newspapers.” (CP)

It might also be that benchmarking in this setting means that the company wants to be identified with international companies where it is more common to use external facilitators. Or as indicated below, benchmarking is done on an individual bases, therefore you need the external consultant;

“What is important is how board evaluations are conducted in the best companies and what is the best practice? And how aggressive are the companies in following up?What are the consequences for board members who do not provide sufficient value creation? It must have consequences. Benchmarking is often based on the qualitative insight of the consultant doing the job for us, in addition to what he can get out of the network.It is quite rare in international companies that they don’t use a facilitator, because there is such a focus on individuals’ contributions, and then you need a facilitator”. (CP)

If assuming the benchmarking is used on an individual level, this fits well with previous observations that the board evaluation is used mainly for recruitment purposes and not for internal development. The board members might not have knowledge of this benchmarking, which is why they have not mentioned it. And judged by the statement that “benchmarking is often based on the qualitative insight of the consultant doing the job for us”, the evaluation form might not be the important input to this process.

“How” Modality used in the evaluation/rationale behind the choice

The board evaluation is performed using both quantitative and qualitative measures. The board members are asked to evaluate the board collectively and their own contribution by giving a score, and they have to explain the reasoning behind the score. There are also issues related to their normative view....”How much time would you prefer the board should dedicate to strategic issues”.

The evaluation is performed in two stages. The survey, and then a one-to-one interview with each board member:

“(Then it’s both an interview, a personal interview one-on-one, in addition to a questionnaire where you evaluate how the board collectively functions.) Yes.” (EEBM)

There is a gap between the IBM and the EEBM regarding who the respondents are. While the IBM perceive the management to be a respondent, the EEBM do not identify the management as taking part in the evaluation. This, however, is not viewed as a gap as the EEBM previously have identified the result being communicated to management (see above), and thus indicating their participation.

“In S1 the administration also answers the board evaluation on my initiative. I think it’s much better if the administration also gives its impression of the board.” (IBM)

Clear secondary goals

The two interviewees both acknowledge that nothing specific exists regarding goal attainment:

“What is interesting is not the average score, but the variances, and how you measure them. If there are diverging views on the board on single issues, then that’s a good reason for discussing. (If the average is 4 and the variance low, is that good enough? When have you reached the goal?) What I think we can conclude from this is that the board is very professionally run and has mostly had very high scores.” (EEBM)

“(I am interested in how you measure; you say you use a scale of 1 – 7. How do you grade when you have done well, and when is there room for improvement? Is a 4 good enough?) That is a very good question. I feel it is quite intuitive” (IBM)

If qualitative benchmarking of individual board members by the external consultants is the main purpose, then it appears that quantitative goal attainment of the board as a group has not been the focus in this evaluation, and therefore probably not discussed. The scores are only used for presentation purpose, good for making charts, but the main focus appears to be the qualitative comments the board members make, either in the written board evaluation or in the interview with the external consultant.

There is a gap related to how long the board discusses the result of the evaluation, where the IBM indicates 2 hours while the EEBM indicates 30 minutes.

“(When you have conducted the board evaluation, how much time do you take to discuss it?) Well, it’s all done in a couple of hours. At the end of a board meeting.” (IBM)

"I don't quite recall, let's say about 40 minutes. There is a presentation, 10-15 minutes of it, and then 30 minutes of discussion. I can't be more precise." (EEBM)

Why the gap?

To what extent this can be defined as a gap is questionable. As indicated, the EEBM does not remember exactly, while the IBM appears to include both the presentation and the discussion in her statement. But it is probably fair to say, based on analysis, that the discussions are not lengthy. As indicated by the EEBM, the board is very satisfied with its performance;

"What I think we can conclude from this is that the board is very professionally run and has mostly had very high scores." (EEBM)

In addition, if the purpose is recruitment, or evaluations are done individually, this presentation is not the important element of the evaluation. Last but not least, as indicated below, the board does not prepare an action plan, indicating that follow-up is not a priority or necessary, which again would indicate that discussions are not lengthy.

Follow-up on the evaluation result

Internal follow-up

No follow-up has been identified by the two interviewees:

"How are the conclusions/results of the board evaluation followed up? In graphic presentations of the results that also include individual comments. Discussed at a board meeting." (IBM)

The EEBM appears to identify follow-up as feedback to management, indicating that needed follow-up is related to input to the board, or that any follow-up is the responsibility of the Chairperson

("You said the following up could vary, so things could sometimes still remain in the system like a loose ball?)

"Yes, well I wouldn't put it that strongly, but the consultant comes to a board meeting and presents a resume with the main points, and we try to follow this up, but I don't know all the specific actions. There is lot of interaction between the chair of the board and the CEO about how to organize the meeting and what to spend time on, but the board as such does not have a very specific plan of action. So it's up to the chair to follow this up with the administration." (EEBM)

The current Chairperson looks at the lack of internal follow-up from the evaluation as a weak point of the previous board evaluations:

"When I look back on how this company has managed this, one thing I miss is perhaps ... the process seems excellent, but what I miss is that it concludes in a "this is our agenda" and "this is how we are going to work to improve as a board". An improvement agenda, call it an action plan. "(CP)

If we assumed that board recruitment has been the most important purpose, internal follow-up has not been the priority. This is also indicated by the current Chairperson when reflecting on previous board evaluations:

“The main objective is the board’s work and improvement. It’s not associated with giving the nomination committee a better foundation for doing its work. That is an all right bi product The nomination committee must organize its own interviews with the board members and the management to get first hand information of how things are working. If they think they can get the board’s self evaluation as a main premise for its work, I think that’s wrong. That is not good governance. (CP)

External follow-up

Although nothing is indicated by the board members regarding external follow-up, it is evident, based on the answers given by the interviewees regarding purpose and to whom it is communicated, that they perceive there is an external follow-up of the board evaluation.

4.2.3 Preferred model

The interviewees appear very content with the current practice of board evaluation. As summed up by the EEBM:

“I have no objections to the way it’s been done, neither with the objective nor the carrying through as such, it has been very thoroughly and professionally done.” (EEBM)

One reason as expressed by the EEBM is the professionalism of the process. The fact that an external consultant is used appears to be associated with quality.

Or the reason for acknowledging the evaluation process without any reflections as to other ways of doing it is what the EEBM referred to as “too little time available”.

Or it might be that the board member does not have the knowledge to question the process.

Or they don’t see it as their responsibility. A lot of the interviewees refer to elements of the process as “the Chairperson’s responsibility”.

And last but not least, the reason why the preferred model of board evaluation in S1 is close to identical with the perceived model might be that the evaluation process has been institutionalized. Board members accept it without questioning it at all.

4.2.4 Summary

Several gaps between how the board members perceive the evaluation process has been identified. Possible reasons for these gaps have been offered. Below is a summary of these gaps.

Table 4.2.1 Summary of gaps between the interviewees perceived model of board evaluation in S1

Element of the process	Gap	Where	Who?	Why?
"Why" Purpose of the evaluation	No	Both board members perceived purpose is the use the evaluation as input for the nomination process.		
"For whom" Intended recipients of the result	Yes	According to the IBM, the board and the Nomination Committee receive the result, while the EEMB identifies the board, the Nomination Committee and people from managements that are present at board meetings.	IBM: The Board and the Nomination Committee EEMB: The Board, Nomination Committee, and people from administration that take part in board meeting	This issue is not discussed at board level, and the board thus do not have knowledge about the process of distributing the result
"What" Content of the evaluation	No	According to the interviewees, the evaluation contains elements related to board processes, board structure, and elements related to assessing board competence.		
"Who" Evaluator	Yes	According to the IBM, the Chair of the remuneration committee, and the External consultant developed the evaluation form together with the CP, while the external consultant performs the rest of the process. The EEBM identified the external consultant as responsible for the whole process, from developing to presenting. The interviewees deviate in terms of the perceived rationale behind using an external consultant	IBM: the Chair of the remuneration committee, the external Consultant and the CP develop it The rationale behind is to secure a neutral process EEMB: The external consultant is in charge of the whole process. The rationale behind this solution is that the boards do not have the time to conduct it. CP: The rationale behind using external consultant is to benchmark individual board members	The EEBM is not involved in the process and thus have little knowledge about the choices made and the rationale behind these choices
"How" Modality	No	The evaluation is performed in two stages, first a survey based on quantitative measures, with possibility to comment. This is an individual evaluation of the board collectively. Then an interview with individual board members. No information exists regarding whether this is quantitative or qualitative, but this evaluation is an individual evaluation of own and others efforts. While the IBM identifies this as a evaluation process, the EEBM perceives the process to be both evaluation and an evaluation performed by the management	IBM: Evaluation by the board EEMB: Evaluation and evaluation of the board done by management	
"How" Clear secondary goals	No	No clear goals related to goal attainment are discussed and decided		
"How" Discussions of the result	Yes	According to the actual model, the presentation and discussions take about 2 hours, while the perceived model indicates the whole process takes about 40 minutes.	IBM: 2 hours EEMB: 40 minutes	
When	Yes	According to the IBM, an evaluation is performed every January, while the perceived model indicates that evaluations are performed every other year.	IBM: Once a year EEMB: Every second year	According to the EEBM, evaluations have not been an item on the board's annual plan.
Follow-up Internal	No	No specific follow-up related to the result of the board evaluation.		
Follow-up external	No	No specific follow-up related to the result of the board evaluation.		

Table 4.2.1 summarises the identified gaps between the interviewee's perceived models of board evaluation. These gaps will be discussed further at an aggregated level in section 4.12 and 4.13, suggesting reasons why they exist. The findings in section 4.12-4.13 will be put forward to chapter five with the intent of discussing possible measures to close these gaps through the development of a model for board evaluation in listed companies in Norway.

From the analysis, a table can be identified identifying the gaps between the interviewees' perceived and preferred model of board evaluation. In the situation where there is a gap between the interviewees' perceived and preferred model, this is indicated in **bold**.

Table 4.2.2 Gap between perceived and preferred model of board evaluation S1

Element of the process	Gap	Where	Chairperson	Independent Board member	Employee-elected Board member
"Why" Purpose of the evaluation	Yes	Both board members perceived purpose is the use the evaluation as input for the nomination process.	Would like the purpose to be connected to the strategic goals of the company	Preferred model align with own and EEBM's preferred and perceived model, but not with CP's preferred model.	Preferred model align with own and IBM's preferred and perceived model, but not with CP's preferred model.
"For whom" Intended recipients of the result	No				
"What" Content of the evaluation	No				
"Who" Evaluator	No				
"How" Modality	No				
"How" Clear secondary goals	No				
"How" Discussions of the result	No				
When	Yes	According to the IBM, an evaluation is performed every January, while the perceived model indicates that evaluations are performed every other year.		Preferred model is identical to own perceived model, but not with EEBM preferred model.	Would prefer the evaluation to be performed once a year.
Follow-up Internal	Yes	No specific follow-up related to the result of the board evaluation.	Would like a specific plan for how the board should improve	Preferred model is identical to own perceived model and with EEBM perceived and preferred model, but not with preferred model according to the CP.	Preferred model is identical to own perceived model and with IBM perceived and preferred model, but not with preferred model according to the CP
Follow-up external	No				

As can be seen from the table, some gaps between interviewees' perceived and preferred models of board evaluation have been identified. These gaps will be transferred to chapter five and analyses at an aggregated level will be performed. Further, a preferred model of board evaluation based on input from interviewees will be identified and used as input for developing a model of board evaluation in listed companies in Norway

Based on interviews and analyses of the board evaluation form used, a perceived actual model of board evaluation has been identified at company level, see table 4.2.3 below.

Table 4.2.3 Perceived actual model of board evaluation in S1

Element of the process	Board evaluation process	Board member involvement and influence
Evaluation form	Formal and written	First give response via a survey, and then an individual interview with each board member
Purpose of evaluation "Why"	Evaluation of board competence for recruitment purpose	Not involved in deciding purpose
Communication "For whom"	Evaluation report communicated to The board, the Nomination Committee, and management	Not involved in deciding recipients
Content of evaluation "What"	32 questions Board's role: 9 (28 %) Board processes: 6 (19 %) Input from management: 3 (9 %) Board competency: 4 (13 %) Chairperson: 1 (3 %) Board's evaluation: 9 (28 %)	Chair of remuneration committee involved in deciding questions
Evaluator "Who"	The external consultant and Chair of the Remuneration Committee	Not involved in deciding evaluator
Modality "How"	Quantitative Individual evaluation of the board collectively Individual evaluation of individual board members Evaluation of all board members	Not involved in deciding modality
Clear Secondary Goals	No clear secondary goals set.	Not involved in deciding what goal attainment is
Discussions of the result	The result is presented by the external consultant, and the content of the presentations decided by the external consultant. Discussed for about 30 minutes	Discussions related to the elements presented.
When timing of the evaluation	Evaluation every other year	Not involved in deciding when
Follow-up internally	No specific follow-up related to the result of the evaluation.	Not Involved in any internal follow up
Follow-up externally	Nothing indicated	Not involved

Analyses of the perceived actual model of board evaluation will be analysed at an aggregated level in chapter five. It will be used as input to identify the approaches adopted by Norwegian listed companies regarding board evaluation, and the factors influencing these approaches, in addition to being used to identify a model for board evaluation in listed companies in Norway.

4.3 Company S2

4.3.1 About the company

Taken out for anonymity purpose

4.3.2 Gap analysis of interviewees' perceived models of board evaluation S2

Based on the analysis performed, several gaps between how the interviewees perceive the model of board evaluation were identified. These are identified and discussed below in terms of possible reasons they exist.

“Why” Purpose of the evaluation

The Chairperson and the IBMs perceive the purpose of board evaluation to be an evaluation of board processes and board competence.

As expressed by the Chairperson:

“You have to find out whether you are doing your job, whether the board is functioning, whether the board is fulfilling its duties in a good fashion, and provide the nomination committee with background material..... The other is to see whether the processes on the board are working”. (CP)

And as expressed by the IBM:

“I think that there is a joint purpose to find out if the board is working well and efficiently, and whether the composition of the board is good” (IBM)

The employee elected board member's perception of the purpose is related to an evaluation of board effectiveness and elements related to how the board works together:

“It was important to follow up/evaluate what we had set up as our objectives and whether they were reached. And how we worked as a team. (EEBM)

Why this gap?

The board does not decide on a clear purpose. Moreover, how the board members perceive the purpose thus appears to give an indication of their personal experience and their perceptions, often influenced by their normative view.

Discussing the purpose

The chairperson expresses that the purpose is discussed with the board, while the board members feel that no discussion is explicitly undertaken, but think such a discussion is not necessary as it is evident what the purpose is:

“Yes, at least in S2, where we had a discussion on the whole survey last year.” (CP)

“The purpose is not quite as single-minded as you perhaps mean, it is more implicit that we are aiming for the best possible board work. That is our heading. And I’m sure the board members realize this without it being mentioned explicitly.” (IBM)

Why the gap?

As no clear purpose has been set, no discussions are performed. The only discussion performed is related to the evaluator. Do we use external consultants, or do we perform the evaluation ourselves, as expressed by the EEBM:

“There is a discussion every year, whether to conduct it ourselves or get somebody else to do it.”(EEBM)

The fact that these discussions are undertaken might be defined by the Chairperson as being a relevant aspect of discussions about the purpose, while this is not how the board members perceive it.

“For whom” Intended recipients of the result

The gaps between the interviewees’ perceived model of board evaluation are related both to who gets the result, and the intended use of the result by the recipients. While the Chairperson perceived the recipients to be the board, the Nomination committee and the CEO, the IBM perceive the board and the Nomination Committee to be the recipients. The EEBM perceived the board as the only recipient.

“The results of the board evaluation are returned to the board, they are summarized in the board, it is sort of the board’s evaluation and assessment of itself, and then the board receives it. The chairperson informs the nomination committee by reviewing the main elements of the survey. What I do in S2 is to also allow the CEO to evaluate the board. Get his assessment of the board. And he also receives the board’s main views, through me. “(CP)

“So the board is the primary recipient of the evaluation that each person has prepared beforehand. Then it is discussed in plenum. The nomination committee is also an important recipient. ” (IBM)

It’s the board itself and no others, as far as I know. (EEBM)

Why this gap?

The gap exists because the Chairperson does not involve or discuss who the result is reported to or how the result is communicated.

“What” The content of the evaluation

When asked to look at different statements and to identify to what degree these statements represent elements in the evaluation, the Chairperson and the IBM both identify elements related to board processes and board competence. The EEBM identify the content to be related to elements regarding evaluation of board effectiveness, the board’s work in relation to laws and codes, board processes, and board structure. Below are the responses to the different statements:

Statement 3:

The board evaluation looked at the board's culture/processes to establish to what degree the processes contribute to value creation. (Does the board work as a team that ensures cohesiveness/creativity/openness and generosity/critical and questioning attitude/preparation, participation and commitment?)

"I think point 3 covers it, that's what I mostly mean. (CP)

"Culture? Yes. Way of working? Yes. Board culture and working processes are the most important.....Working together as a team? Important. Pulling together is important." (IBM)

Statement 4:

The evaluation looked at the structure of the board to establish if it supports the work of the board. (This may include evaluation of sub-committees and their work/the size of the board/board meeting structure/CEO and board instructions/ leadership style of chairperson.)

And you can say the fourth statement has a relevant question; there are issues that are brought up in relevant questions." (CP)

"Composition and structure of the board? Yes.....Subcommittees and their tasks. Yes.....How the chair fulfils his duties. That's part of it. Perhaps not so much duties as conducting the board meetings. (IBM)

Statement 5:

Evaluation looked at to what extent the board members (their professional background, their competencies/ personal characteristics) align with strategy of the company.

"Well the second to last one: competence and composition is one of the elements." (CP)

"Competence? That is an important point. Do we have the right competence on the board? (IBM)

The EEBM is a bit unsure about the content of the board evaluation and thinks they cover everything except an assessment of competence:

"I think I can cross off all of them except for the last one (not background and competence?) No."....."(Some you feel describe your situation better than others?) The points that best describe the evaluation are statement 3 and statement 4. If I were to rank them, I would take 4 first, then 3. Then 2, then 1." (EEBM)

Why the gap?

As identified above, the largest gaps are between the EEBM, on the one hand, and the Chairperson and the IBM on the other hand. The IBM knows the process from other boards and nomination committees, and this might be the reason behind why her and the Chairperson's perceptions align.

As indicated by the EEBM, the purpose of the board evaluation is to evaluate performed tasks against goals set, and to evaluate whether the board functions as a team. His perceptions of purpose fit well with his perceptions of the content. During the interview, he also indicated that the board evaluation was done to conform to the codes, which might be the reason why he indicates an evaluation of the role of laws and codes as being a part of the content.

“Who” Performing the evaluation

There is a gap between the interviewees regarding who they perceive as involved in the evaluation process. The Chairperson indicates that the remuneration committee is in charge of the procedure. The IBM perceives the Chairperson to be the evaluator, while the administration is the facilitator according to the EEBM.

“In S2, it's also the remuneration committee that prepares the evaluation. And I am the leader of it. I am chair of the board and also chair of the remuneration committee.” (CP)

“It's the administration that organizes it. They gather the questionnaires and make a summary and set up the scores.” (EEBM)

“(The Chairperson facilitated the evaluation?) That was last year.” (IBM)

Why the gap?

This gap indicates that this issue has not been discussed at board level. The practical side of the board evaluation, such as sending out and collecting the board evaluation, is often left to others than the Chairperson to administer, typically the CEO's secretary or the board secretary. As the evaluation process is not discussed at board level, and the board members do not get involved in the process, the perceived evaluator typically will be the person the board members are in contact with as part of the process (in this case the board secretary), or the perceived evaluator is the person you know has the responsibility for the process (as the independent director indicated).

“How” Modality used in the evaluation

While the Chairperson indicates that it is impossible to generalize what a goal attainment is (measured in score-values), the board members indicate that clear goals are set. Regardless of whether there has been a drop in the score from one year to the other, only scores below 3 are discussed and thus give indication about when the board's performance is satisfactory.

As the chairperson expressed, setting a clear goal is difficult because of the nature of the questions:

“No, that’s almost impossible to answer. It’s partly a question to objectify the issue, what is the ideal for a team? The other is the individual emotions and they are always different.” (CP)

Both board members indicate otherwise:

“Every score under 3 gets reviewed and discussed in detail. Comments people have made are reviewed in more detail. What they are dissatisfied with and what they mean needs changing. The other elements are areas that score worse than the year before; they must also be addressed and discussed. But 3 or better (even if they have gone down from 4 or 5) will not be spent time on. Only scores under 3. (EEBM)

“(What is goal achievement?) 3 and 4 if you are satisfied. 5 is very good.” (IBM)

There are also gaps regarding how much time the board spent discussing the evaluation result. The Chairperson indication that discussions last for 2-3 hours, while the board members indicate 1-2 hours:

“Yes, the survey is sent out a month in advance, or a month and a half, then you get them in and work on them, and then we spend 2-3 hours on the discussion. (CP)

“It can take a couple of hours.” (IBM)

“Maximum one hour.” (EEBM)

Why the gap?

What level of performance (measured in an average score) is defined as satisfactory had not been discussed and thus appears to be a subjective matter decided by the evaluator. How board members perceive what is a satisfactory performance is related to what is discussed at board level.

Regarding the gap related to the time spent discussing the board evaluation, the gap appears to indicate a difference between a Chairperson who is eager to appear professional, and the frustration from a board member who would possibly like to spend more time discussing it, as indicated by the following answer:

“I would have liked to dedicate one meeting to it. Have the opportunity to spend some time on it. Once a year is just fine, but it would be nice to spend some time on it.” (EEBM)

Follow-up on the result

Internal follow-up

The Chairperson identifies talks with individual board members after the board evaluation has been conducted as a follow-up. But this is viewed partly as a follow-up and partly as an extension of the board evaluation by the EEBM. The reasoning behind this perception is that the evaluation contains elements related to how the Chairperson conducts his job, an element not focused on in the evaluation form. Analysis shows that only 1 out of the 40 questions in the evaluation form is about the Chairperson.

“(Your informal chat with the various members. Do you feel that is part of the board evaluation?). No, this is quite open; I have informed the board that I will have an individual talk with each one to follow up the board evaluation.”(CP)

“He wanted suggestions based on the evaluation to find out which topics to put on the board’s agenda. What are we not focusing on enough? Too much focus?.....“The new thing is that he has started the follow-up talk in order to do a better job as chair of the board, and then we can talk in more detail. (EEBM)

The IBMs did not identify any internal follow-up of the board evaluation.

Gap internal follow-up

To what degree the gap between the Chairperson and the EEBMs perception should be defined as a gap is not easy to say, as we do not have information about the specifics of these informal talks. It might be that the Chairperson follows-up on the one question in the evaluation regarding his position. However, it seems likely that the Chairperson uses this opportunity to gather more information from board members than just follow-up this one question. Why he chooses to perform this evaluation informally by talking with board members is not known. It might be related to his beliefs that using a quantitative approach when evaluating is difficult, and as such these informal talks with the board members will give him more useful feedback than the survey.

Based on the perceptions aired by the two board members, there appears to be no specific internal follow-up other than these informal talks with some individual board members.

External follow-up

Follow-up externally is related to competency and the contribution of board members, and the Chairperson’s and the IBM’s views align regarding how they perceive what is followed-up externally:

“(If you say that this setting is not very good, there are some people who never speak and some who never contribute. What do you do then?) Replace, this happened in one of the companies....(You don’t say anything about what they can do to be a part of the process?)...Yes, initially, but if people aren’t credible, they have to go. If they are credible, they can be trained.” (CP)

“(How about lack of competence?) That takes a little more time. That is something for the nomination committee to get involved in and then it will take it up to the next general assembly to do anything about it.”(IBM)

The EEBM does not say anything about external follow-up, which is consistent with the fact that he perceives the board evaluation as being to develop the board in terms of the people that already have a seat.

Gap external follow-up

There is no discussion of possible or probable follow-up regarding the evaluation result. The reasons being one of several: that based on the evaluation result, no follow-up is needed. Or

that the Chairperson identifies and decides on needed follow-up himself without discussing it with the board.

4.3.3 Preferred model of board evaluation

Several gaps between how board members perceive the board evaluation model and how the Chairperson perceives it have been identified. Nevertheless, board members seem to approve of the perceived model as their preferred model to a large extent. This is despite the fact that there is an acknowledgement by the board members that the Chairperson does not involve board members in decisions related to the process.

The EEBM indicates, however, that his preferred model of board evaluation would be a process where the evaluation result was discussed to a greater extent, preferably at a separate board meeting, and that he would like to see a plan of action prepared as a result of these discussions:

“If it’s to be done differently, we must dedicate more time.”.....“I think it’s ok the way we do it, but we must prepare an action plan. Agree on what we are going to do. How can we contribute?” (EEBM)

One reason for the preferred model and the perceived model being almost identical might be that the EEBM perceives the evaluation process to be improving with this Chairperson, especially regarding follow-up of the result:

“The Chairperson started last year and we have only had one evaluation with him. What’s positive with him is that he follows up.” (EEBM)

4.3.4 Summary

Several gaps between how the board members perceive the evaluation process has been identified. Possible reasons for these gaps have been offered. Below is a summary of these gaps.

Table 4.3.1 Summary of gaps between interviewees perceived model of board evaluation in S2.

Element of the process	Gap	Where	Who?	Why?
"Why" Purpose of the evaluation	Yes	The Chairperson identifies board processes and board composition, and the IBMs perceived purpose aligns with this. The EEBM's perception of the purpose is board effectiveness and board processes.	CP: Board processes and board composition IBM: Board processes and board composition EEBM: Board effectiveness and board processes	The gap indicates no purpose has been discussed and decided at board level. IBM has a lot of experience, and knows the process from other companies and Nomination Committees.
"For whom" Intended recipients of the result	Yes	The Chairperson identifies the board, the nomination Committee and the CEO as recipients, while IBM identifies the board and the Nomination Committee. The EEBM identifies the board as the recipient	CP: The Board, the nomination committee, CEO IBM: The Board and the Nomination committee EEBM: The Board.	No discussions at board level
"What" Content of the evaluation	Yes	The Chairperson identifies elements related to board processes, board structure, and board competency, and IBM's perceptions align with this. The EEBM identifies elements related to board processes, board structure, assessing board effectiveness, and assessing board's work against laws and codes, but not board competence	CP: Board processes, board structure, and Board competence IBM: Board processes, board structure, and board competence. EEBM: Board processes, board structure, assessing board effectiveness, and assessment of board work against law and codes.	Board members are not involved in the process, and the EEBM lack the experience which the IBM is building her answers on.
"Who" Evaluator	Yes	The Chairperson identifies the Remuneration Committee as the facilitator. The IBM identifies the Chairperson to be the evaluator, while the EEBM perceives the administration to be the evaluator	CP: Remuneration Committee IBM: The Chairperson EEBM: The administration	Little involvement in the process other than responding to the survey
"How" Modality	Yes	While the Chairperson and the IBM identify the evaluation to be a survey, using quantitative measures, the EEBM indicates that there is a qualitative individual talk with individual board members which is part of the evaluation.	CP & IBM: A quantitative survey where individual board members respond for the board collectively EEBM: In addition to the quantitative survey, there is a talk with individual board members, performed qualitatively	The Chairperson's perception of what is part of the evaluation and what is follow-up is different than how the EEBM perceive it.
"How" Clear secondary goals	Yes	The Chairperson indicates that clear goals are impossible to identify, while both the IBM and the EEBM perceive a score of three and above to be OK	CP: No goal attainment identified IBM: Score of three and above EEBM: Score of 3 and above	The two board members perceptions are related to what is discussed when the result of the evaluation is presented.
"How" Discussions of the result	Yes	The Chairperson indicates discussions between 2-3 hours, while the two board members indicate discussions between 1-2	CP: 2-3 hours IBM: 1-2 hours EEBM: Max 1 hour	
When	No			
Follow-up Internal	Yes	The Chairperson indicates that individual talks with board members are a follow-up of the evaluation, while the EEBM perceives these talks to have elements of both follow-up and to be part of the evaluation, as they contain elements not focused on in the evaluation. The IBM does not identify any internal follow-up	CP: Individual talks to follow-up on the evaluation result EEBM: Individual talks are part of the evaluation in addition to a follow-up on the evaluation result IBM: No follow-up identified	Individual talks not performed with all board members, or the IBM view this as part of the evaluation, not follow-up.
Follow-up external	Yes	While the Chairperson and the IBM both identify external follow-up to be related to competency of board members, the EEBM does not identify any external follow-up	CP & IBM: External follow-up related to competency EEBM: No external follow-up identified	The Chairperson do not involved board members in the follow-up

Table 4.3.1 summarises the identified gaps between the interviewees' perceived model of board evaluation. These gaps will be discussed further at an aggregated level in section 4.12 and 4.13, suggesting reasons why they exist. The findings in section 4.12 and 4.13 will be put forward to chapter five with the intent of discussing possible measures to close these gaps through the development of a model for board evaluation in listed companies in Norway.

From the analysis, a table is made identifying the gaps between the interviewees' perceived and preferred models of board evaluation. In situations where there is a gap between the interviewees' perceived and preferred models, this is indicated in **bold**.

Table 4.3.2 Gaps between perceived and preferred model of board evaluation in S2

Element of the process	Gap	Where	Chairperson	Independent Board member	Employee-elected Board member
"Why" Purpose of the evaluation	No				
"For whom" Intended recipients of the result	No				
"What" Content of the evaluation	No				
"Who" Evaluator	No				
"How" Modality	Yes	While the Chairperson and the IBM identify the evaluation to be a survey, using quantitative measures, the EEBM indicates that there is a qualitative individual talk with individual board members which is part of the evaluation.	Preferred model aligns with own perceived model, but not with IBM's perceived and preferred model, or with EEBM's preferred model	Preferred model aligns with own perceived model, but not with CP's perceived and preferred model, or with EEBM's preferred model	Want the evaluation result to be discussed to a greater extent
"How" Clear secondary goals	No				
"How" Discussions of the result	Yes	The Chairperson indicates discussions between 2-3 hours, while the two board members indicate discussions between 1-2	Preferred model aligns with own perceived model, but not with IBM's perceived and preferred model, or with EEBM's preferred model	Preferred model aligns with own perceived model, but not with CP's perceived and preferred model, or with EEBM's preferred model	Would like more discussions about the result
When	No				
Follow-up Internal	Yes	The Chairperson indicates that individual talks with board members are a follow-up of the evaluation, while the EEBM perceives these talks to have elements of both follow-up and to be part of the evaluation, as they contain elements not focused on in the evaluation. The IBM does not identify any internal follow-up	Preferred model aligns with own perceived model, but not with IBM's perceived and preferred model, or with EEBM's preferred model	Preferred model aligns with own perceived model, but not with CP's perceived and preferred models, or with EEBM's preferred model	Preferred model indicate that there should be an action plan where measures to close gaps are identified and suggested closure presented.
Follow-up external	No				

As can be seen from the table, some gaps between interviewees' perceived and preferred models of board evaluation have been identified. These gaps will be transferred to chapter five and analyses at an aggregated level will be performed. Further, a preferred model of board evaluation based on input from interviewees will be identified and used as input for developing a model of board evaluation in listed companies in Norway.

Based on interviews and analysis of the board evaluation form used, a perceived actual model of board evaluation has been identified at company level:

Table 4.3.3 Perceived actual model of board evaluation in S2.

Element of process	Board evaluation	Board member involvement and influence
Evaluation form	Formal and written	Give response via a survey
Purpose of evaluation "Why"	Evaluation of board processes Input to Nomination Committee	Not involved in deciding purpose
Communication "For whom"	Result communicated to the board, the Nomination Committee and the CEO	Not involved in deciding recipients
Content of evaluation "What"	40 questions Board role: 15 (38 %) Board internal processes 9 (23 %) Input from management: 2 (5 %) Board competency: 5 (13 %) Chairperson: 1 (3 %) Board's evaluation: 7 (18 %)	Not involved in deciding content.
Evaluator "Who"	The Chairperson	Whether to use external or internal evaluator discussed
Modality "How"	Quantitative Evaluation of all board members Board collectively	Not involved in deciding modality
Clear Secondary Goals	No clear goals possible to decide	Not involved in setting clear secondary goals
Discussions of the result	The result is discussed for 2-3 hours	Involved
When timing of the evaluation	Evaluation once a year as indicated by the codes	Not involved in deciding when
Follow-up internally	No specific follow-up	Not involved in any internal follow-up
Follow-up externally	Board member competence	Not involved

Analysis of the perceived actual model of board evaluation will be conducted at an aggregated level in chapter five. It will be used as input to identify the approaches adopted by Norwegian listed companies regarding board evaluation and the factors influencing these approaches, in addition to being used to identify a model for board evaluation in listed companies in Norway.

4.4 Company S3

4.4.1 About the company

Taken out for anonymity purpose

4.4.2 Gap analysis of interviewees' perceived models of board evaluation in S3

Based on the analysis performed, several gaps between how the interviewees perceive the model of board evaluation were identified. Below, these gaps will be identified in terms of statements made by the interviewees and discussed in terms of the reasons they exists.

“Why” Purpose of the evaluation

Board members' perceived purpose is a combination of evaluating board processes and board competence as indicated by the following quote:

“As far as I remember there were two main objectives: one was about our work processes, the other about competence” (IBM)

The Chairperson views the evaluation as a mechanism to “control” board member behaviour:

*“The board evaluation’s main objective is to contribute positively to ... It disciplines and educates, so to speak, so that the people who are chosen will have their say and use their abilities throughout the year. And then comes the meeting with the nomination committee, which I regard as very important. **Then** we evaluate.. Is this the right board, or should we make some replacements? (CP)*

According to board members the purpose of the evaluation is not discussed at board level, they are just asked to fill in the evaluation form when sent to them:

“We received the questionnaire by mail, and there was no further communication than that.” (EEBM)

The Chairperson seemed to think that the purpose is known and therefore need not be discussed

(Is the purpose discussed?) “Yes, I think I can answer yes to that. And that is because before the general assemblies where the board will be re-elected, then the board is anxious whether it will re-elected or not” (CP)

Why this gap?

The reason for this gap seems to be the fact that the Chairperson and the board members refer to different evaluations when discussing the purpose. For the Chairperson the “real evaluation” and thus the “real purpose” seem to be an evaluation performed by the Chairperson and the

CEO in a meeting with the Nomination Committee. The board evaluation thus seems to serve the purpose of discipline:

*“(If you know there is an evaluation, perhaps you contribute a little more?) Yes, yes....(But as a tool, you believe you should be a bit humble when assessing its importance?)...For me the most important thing is meeting with the nomination committee, absolutely the most important. What good does it do.. if you don't **have** the necessary competence to understand what is going on in the company?.....you can't begin to do anything about it can you?.....and you can sit on the board for five years and not contribute much. (CP)*

As to the gap related to discussion of the purpose, the Chairperson regards such discussions unnecessary as board members are aware of the purpose according to him.

“For whom” Intended recipients of the result

The Chairperson is responsible for distributing the result of the evaluation and indicates that the main recipients are:

“The board, and the nomination committee.” (CP)

He nonetheless also indicates that other stakeholders can look at the evaluation if they want to, but does not indicate to what extent these stakeholders actually ask to see the board evaluation:

“In addition, the CEO and the shop stewards have access. “ (CP)

Board members perceive the board as the main recipient, and express uncertainty regarding who else gets the result. The IBM indicates management as a possible additional recipient, while the EEBM mentions the Corporate Governance Committee as another recipient:

“We get the results. It probably goes to the board and the management. And I don't know whether it's sent to the nomination committee.” (IBM)

“I know that the board members get it, so I suppose the corporate governance committee goes over it.” (EEBM)

Why the gap

Who receives the result has not been discussed, hence the uncertainty between board members regarding who receives it. The Chairperson seems to be very liberal regarding who receives or has the opportunity to ask for the report.

This fits well with his view that a board evaluation will discipline the board members....Given the fact that EEBMs are not “accountable” to the nomination committee, indicating that the evaluation report is available to the unions might contribute to discipline the EEBMs. The chairperson treats this formal board evaluation as secondary to the evaluation performed by the

Chairperson, the CEO, and the Chair of the Nomination Committee. He thus appears less concerned with who receives the result of the evaluation.

“Who” Performing the evaluation

In this company there are huge gaps between the Chairperson and the board members regarding who they perceive as being involved in the evaluation process.

Whilst the board members perceive their only involvement is the answering of the evaluation form:

“The CEO’s secretary sent it electronically. (You filled it in and returned it and that’s what you know?) Yes.” (EEBM),

the Chairperson perceives the board as more involved and that the questions are something the board develops together:

“I’m sure we took it from another company, or we usually do it by people from different boards bringing what they have and then we mix it all together.” (CP)

There is also a gap regarding the carrying out of the board evaluation. According to the Chairperson:

“The evaluation is done outside the board meeting. The management sends out the evaluation and it is returned to management. And then it goes to the CG committee. The results are then followed up at the board meeting.” (CP)

Although the interviewed IBM is a member of the Corporate Governance committee, she seems to lack knowledge about who analyzes and prepares the report with conclusions:

“I think it only goes to the board’s chair. Perhaps it is sent to the leader of the corporate governance committee?” (IBM)

Why the gap?

Because the overall responsibility for performing the evaluation rests with the Chairperson, they seem to assume that the Chairperson is the evaluator, given they do not have information about who is actually doing it. What board members know about the process is that the CEO’s secretary sends out the evaluation form:

“The CEO’s secretary sent it electronically. (You filled it in and returned it and that’s what you know?) Yes” (EEBM)

The board members appear to be very passive participants in the process. The reason might be the fact that they are not invited by the Chairperson to contribute, or do not want to challenge him because of his experience/superiority/position:

"I know it's usual sometimes to have an external consultant, but I don't think we spent any money on that. You have a chairperson with a lot of drive, a lot of experience and self confidence so I don't think you need that." (IBM)

Or, this might be because the board members are inexperienced or uninterested and do not want to challenge anything related to established board activities. This might be the case in this company as the 4 employee-elected board members all became board members in 2007 when the board size increased from 8 members to 12.

Last but not least, the fact that the Chairperson seems to think the whole corporate governance committee is involved in the evaluation process, whilst one of the corporate governance committee member is not aware of this, again suggests that the Chairperson does not have sufficient knowledge about the evaluation process, hence the gap.

"What" Content of the evaluation

All interviewees acknowledge the fact that the board evaluation contained elements related to board processes and to what degree the established board processes contribute to value creation.

Statement 3:

"(The board evaluation looked at the board culture/processes to establish to what degree the processes contribute to value creation. - Does the board work as a team that ensures cohesiveness/creativity/openness and generosity/critical and questioning attitude/preparation, participation and commitment)"

"I can answer yes to that. That is what we do. In regard to plans and everything." (CP)

"Culture and ways of working. Perhaps we haven't evaluated how well we work as a team. We studied the aspect of critical thinking very thoroughly when going over the corporate governance document. And being prepared for meetings. (EEBM)

"I think the third bullet point fits well." (IBM)

And they all agreed that the evaluation contained elements related to how the board structured its work:

Statement 4:

"The evaluation looked at the structure of the board to establish if it supports the work of the board. (This may include evaluation of sub-committees and their work/the size of the board/board meeting structure/CEO and board instructions/ leadership style of chairperson):"

"Statement 4: I can say yes to that." (CP)

"We also look at composition and organizing. (The board committees and what they do? How they contribute?) Yes. (EEBM)

"Partly number 4 – organization. Perhaps not so detailed. Well, yes, anyway. Number 4. (IBM)

The gap between how they perceived content was related to the part of the evaluation where competence and personal characteristics were compared against company strategies. Both the Chairperson and the IBM agree that this element is part of the evaluation, while the EEBM did not recognize this.

Statement 5:

“The evaluation looked at to what extent the board members (their professional background, their competencies/ personal characteristics) align with strategy of the company.”

“Statement 5: That discussion is in the nomination committee.” (CP)

“3,4 and 5 are ok really” (IBM)

In addition to the above identified elements, the EEBM perceived the evaluation to include an assessment of the board’s work in relation to laws and codes:

“I have checked most of them, except the first dash. We look at composition and tasks that have been accomplished.” (EEBM)

Why this gap?

The Chairperson does not use the evaluation for any specific purpose. He is little involved in the process of the board’s evaluation, and thus does not know the details of it. Another concern is that the purpose identified by the Chairperson is not aligned with the identified content. This gives further indications that the Chairperson is alienating himself from the process.

The board evaluation form used in this company is identical to the evaluation form developed by the Chairperson and used in another company, also in my sample. This evaluation form contains elements related to the identified areas discussed above. Using this evaluation form seems an efficient way of conducting the evaluation without too much effort given to the fact that the Chairperson seems to disregard the formal evaluation when meeting the actual purpose.

“How” Modality used in the evaluation

The interviewees all acknowledge that the board evaluation is quantitative and an individual evaluation of the board collectively. The board members are, however, not aware of the reasoning behind the use of this approach:

“I don’t know. Maybe it was the closest one? Easiest, fastest, used before? I have never tried another method. I guess it’s the most used.” (IBM)

Using a score to give feedback to the statements given in the evaluation makes it possible to calculate an average score. However, there seem to be different views regarding to what extent information is given regarding the use of the different scores and which scores indicate goal achievement.

“We were given an indication of that, but you can never guard against some people being too nice with the grades while others are stricter. (IBM)

“We haven’t done that! We have handed it in and received a total score. An average. Then it stops there. I don’t know if anybody knows what it takes to get a six.” (EEBM)

The time spent discussing the result according to the Chairperson is about an hour:

“An hour perhaps?”(CP)

But perceived time spent discussing the result is much shorter according to the board members:

“Let’s be generous and say 20 minutes” ...“This was right at the end of a board meeting and not everybody had time to stay on” (EEBM)

“10-20 minutes, depending. Let’s say 20 minutes.” (IBM)

Why the gap?

The Chairperson did not indicate the reasoning behind the incorporated modality, as such considerations have not been made and thus not discussed with board members. He used the evaluation form developed by another company without any alterations or changes being made. As he views this evaluation as secondary he might not have given it much thought as to why the quantitative form is being used, or which score indicates goal achievement. The use of quantitative measures is easy in terms of calculating averages, variations, and changes from one year to another.

The gap related to how much time was used to discuss the result and indicates that there isn’t any real discussion. It suggests that any conclusions from the analysis have been made outside the board room and presented to the board.

“If there is nothing special, we don’t talk about it.....(So even if you hadn’t discussed the board evaluation something still happened afterwards?). Yes. “ (EEBM)

“When” Timing of the evaluation

Related to timing and frequency of board evaluations, there are no gaps between the interviewees.

Follow-up of the evaluation

Internal follow-up

No follow-up plan or strategies are prepared in order to follow up elements from the board evaluation. The identified needed follow-up is decided outside the boardroom and the conclusions presented to the board. The follow-up is related to practical issues related to the board meeting or management.

“One of the conclusions we reached was that we wanted a specific item on the agenda where we were alone without anybody from the administration and that has been implemented. ...We have also set up a list of arrears” (IBM)

External follow-up

The external follow up is organized and handled by the Chairperson, but to what extent he uses information from the evaluation form when initiating possible external follow-up is not known. External follow-up in this case is the action taken by the nomination committee based on the information given by the Chairperson about the board and is related to competency:

“Many of the board members I have sat with on boards know very little and really have few qualifications for really understanding the company. I think the link to the nomination committee is important, because if somebody is not contributing, then it will come out, and it HAS come out and then it will be something the nomination committee will have to take seriously before the next election.” (CP).

Board members do not indicate any external follow-up.

Why the gap?

The Chairperson does not include the board member in the process of follow-up. It appears that solutions are presented together with the result, not inviting board members to reflect on possible ways to do this. The gap related to external follow-up exists because board members are not aware of the procedure or do not assume any part in this follow-up and thus do not acknowledge it as part of the process.

4.4.3 Preferred model of board evaluation

Although there are many gaps between how the different interviewees perceive the evaluation model, board members indicate to a large extent that their preferred method of board evaluation is identical to their perceived model of board evaluation, which is different from how the Chairperson perceives the evaluation model. To what extent this is due to lack of knowledge about, or experience in, performing board evaluations is not easy to say. The IBM indicates that this method of board evaluation reflects what she has been involved in previously and thus she did not challenge the form or content. These findings might indicate that board evaluations are institutionalized. Accepted and not questioned.

4.4.4 Summary

There are many gaps identified between how the Chairperson and the board members perceive the board evaluation model. Below is a summary of the gaps and some suggestions regarding why these gaps exist.

Table 4.4.1 Summary of gaps between interviewees' perceived model of board evaluation in S3

Element of the process	Gap	Where	Who?	Why?
"Why" Purpose of the evaluation	Yes	The Chairperson's perception of the purpose is unclear, indicating that the purpose is to control and educate board members. The IBM perceives the purpose to be an evaluation of board processes and board competence, while the EEBM agrees with these two purposes, but adds evaluation of management to be a purpose	CP: To control the board members IBM: Board processes and board competence EEBM: Board processes, board competence and board's evaluation	The Chairperson views this evaluation to be secondary, and it is performed to conform to the codes.
"For whom" Intended recipients of the result	Yes	The Chairperson perceives recipients to be the board and the Nomination Committee, while the CEO and the shop stewards have access. Both the IBM and the EEBM perceive the board to be the main recipient, but are uncertain about to what degree anyone else should get the result	CP: Receivers: The board and the Nomination Committee. Access: CEO and Shop stewards IBM: The board EEBM: The board	Intended recipients are decided by the Chairperson and not discussed with board members. Therefore little knowledge about who receives it
"What" Content of the evaluation	Yes	The Chairperson's perception of the content is that it includes elements related to board processes and board structure. Board members' perceptions include these two elements, but they add elements related to board competency, and evaluation of board work against laws and codes.	CP: Board processes, board structure IBM: Board processes, board structure and board competency EEBM: Analysis of board work against law and codes, board processes, board structure, and board competency	According to the Chairperson, competency is discussed in the formal and oral board evaluation).
"Who" Evaluator	Yes	The Chairperson perceives the board to be involved in developing the board evaluation, while the Corporate Governance Committee collates, analyzes, and suggests points of improvements. Both board members perceive the chairperson to be the evaluator, involved in the whole process from developing to presenting.	CP: Developed by the board, and conducted by the Corporate Governance Committee IBM: The Chairperson is in charge of the whole process EEBM: The Chairperson is in charge of the whole process	The Board members are not involved in the process other than receiving the survey from the company secretary, and that the Chairperson presents the result.
"How" Modality	No	All interviewees perceive the evaluation to be quantitative, and that individual board members evaluate the board collectively		
"How" Clear secondary goals	No	All interviewees' perception is that there are no clear measures of what goal attainment is.		
"How" Discussions of the result	Yes	The Chairperson's perception is that the board evaluation is discussed for about an hour, while the two board members perceive the time used for discussions is much shorter.	CP: 1 hour IBM: 10-20 minutes EEMB: Max 20 minutes	
When	No	Once a year – in the autumn		
Follow-up Internal	No	All interviewees' perception of internal follow-up is related to practical issues dealt with when the evaluation is presented. How to deal with these issues is dealt with by the Corporate Governance Committee, and not decided by the board collectively.	CP: No follow-up IBM: No follow-up EEMB: No follow-up	
Follow-up external	Yes	The Chairperson perceives external follow-up to be related to competency and handled by the nomination committee. This is identical to how the IBM perceives external follow-up, while the EEBM did not identify such external follow-up.	CP: Follow-up dealt with by the Nomination Committee	The board members are not involved in this part of the evaluation, and thus do not recognize this as a follow-up.

Table 4.4.1 summarises the identified gaps between the interviewees' perceived model of board evaluation. These gaps will be discussed further at an aggregated level in section 4.12 and 4.13, suggesting reasons why they exist. The findings in section 4.13 will be put forward to chapter five with the intent of discussing possible measures to close these gaps through the development of a model for board evaluation in listed companies in Norway.

From the analysis, a table summarising the gaps between the interviewees' perceived and preferred models of board evaluation can be presented. In situations where there is a gap between the interviewees' perceived and preferred models, this is indicated in **bold**.

4.4.2 Summary of gaps between interviewees perceived and preferred model of board evaluation in S3

Element of the process	Gap	Where	Chairperson	Independent Board member	Employee-elected Board member
"Why" Purpose of the evaluation	No				
"For whom" Intended recipients of the result	No				
"What" Content of the evaluation	No				
"Who" Evaluator	Yes	The Chairperson perceives the board to be involved in developing the board evaluation, while the Corporate Governance Committee collates, analyzes, and suggests points of improvements. Both board members perceive the chairperson to be the evaluator, involved in the whole process from developing to presenting.	Preferred model is identical to own perceived model, but not to EEMB's perceived and preferred model, and not with IBM's preferred model	Would prefer an external evaluator to be "freer" to speak	Preferred model is identical to own perceived model, but not to CP perceived and preferred model, and not with IBM's preferred model
"How" Modality	Yes	All interviewees perceive the evaluation to be quantitative, and that individual board members evaluate the board collectively	Preferred model is identical to own and EEMB's perceived and preferred model, but not with IBM's preferred model	Would prefer also individual members to be evaluated in addition to the collective existing board evaluation	Preferred model is identical to own and CP's perceived and preferred models, but not with IBM's preferred model
"How" Clear secondary goals	Yes	All interviewees' perception is that there are no clear measures of what goals attainment is.	Preferred model is identical to own and EEMB's perceived and preferred models, but not with IBM's preferred model	The board member indicates that she would prefer to identify clear goals and identify goal attainment	Preferred model is identical to own and CP's perceived and preferred models, but not with IBM's preferred model
"How" Discussions of the result	No				
When	Yes	Once a year – in the autumn	Preferred model is identical to own and IBM's perceived and preferred model, but not with EEMB's preferred model	Preferred model is identical to own and CP perceived and preferred model, but not with EEMB's preferred model	Would prefer the evaluation to be performed at a separate meeting, preferably at the strategy-away-days
Follow-up Internal	No				
Follow-up external	No				

As can be seen from the table, some gaps between interviewees' perceived and preferred models of board evaluation have been identified. These gaps will be transferred to chapter five and analyses at an aggregated level will be performed. Further, a preferred model of board evaluation based on input from interviewees will be identified and used as input for developing a model of board evaluation in listed companies in Norway.

Based on interviewees, and analysis of the evaluation form used in S3, the following perceived actual model of board evaluation has been identified:

Table 4.4.3 Perceived actual model of board evaluation in S3

Element of process	Board evaluation	Board member involvement and influence
Evaluation form	Formal and written	Give response via a survey
Purpose of evaluation "Why"	Evaluation of board processes Input to Nomination committee	Not involved in deciding purpose
Communication "For whom"	Result communicated to the board, and Nomination Committee	Not involved in deciding recipients
Content of evaluation "What"	54 questions Board's role: 8 (15 %) Board processes: 16 (30 %) Input from management: 2 (4 %) Board competency: 6 (11 %) Preparation and contribution: 3 (5 %) Board's evaluation: 19 (35 %)	Not involved in deciding content.
Evaluator "Who"	The Corporate Governance Committee	Not involved in deciding
Modality "How"	Quantitative Evaluation of all board members Board collectively	Not involved in deciding
Clear Secondary Goals	No clear goals	No discussion about clear secondary goal attainment
Discussions of the result	Discussions for 1 hour	Involved
Timing of the evaluation "When"	Evaluation once a year as indicated by the codes	Not involved in deciding
Follow-up internally	No specific follow-up	Not involved in deciding
Follow-up externally	Competence	Not involved

Analysis of the perceived actual model of board evaluation will be performed at an aggregated level in chapter five. It will be used as input to identify the approaches adopted by Norwegian listed companies regarding board evaluation and the factors influencing these approaches, in addition to being used to identify a model for board evaluation in listed companies in Norway.

4.5 Company S4

4.5.1 About the company

Taken out for anonymity purpose

4.5.2 Gap analysis of interviewees' perceived models of board evaluation S4

Based on the analysis performed, several gaps between how the interviewees perceive the model of board evaluation were identified. These are identified and discussed below in terms of possible reasons why they exist.

“Why” Purpose of the evaluation

The Chairperson perceives the evaluation as a means to develop, in which the purpose is to evaluate performance against set goals:

“Our main objective is to find out whether the goals the board has set for its work have been achieved. And then we see how the board has functioned, how they regard our work, how they regard their own work, how the members cooperate, cooperation with management and their relationship to the board chair.” (CP)

This is identical to the perceived model expressed by IBM1 and the EEBM:

“.....the most important objective for me is.....how the board functions together as a team. How we work together. And then.....the objective is to find out whether we have reached our goals. But that is through how we as a group work together.” (IBM1)

“I have crossed off statement 1 where the main objective is to find out whether the goals set by the board have been achieved. That’s the main objective as I see it. ” (EEBM)

IBM2 perceives the purpose to be an evaluation of board processes and board competence:

“I think that is a joint purpose to find out if the board is working well and efficiently, and whether the composition of the board is good.” (IBM2)

When asked whether the purpose was discussed at board level, the perception of the interviewees deviates. The Chairperson and the IBM indicate that such a discussion is undertaken:

“Yes it does absolutely, and it’s appreciated” (CP)

“We do, and we have in all the other companies I’ve been. What do we want to achieve, and why do we do this” (IBM1),

while the IBM 2 and the EEBM do not identify any such discussions:

“It’s more –‘we’ll conduct a board evaluation again this year to see how things stand” (EEBM)

“It’s not discussed specifically. It’s more implicit that we are aiming for the best possible board work” (IBM2)

Why the gap?

Although most interviewees express evaluating board processes as an important purpose, in this context it is not a purpose in itself, just an effect of actually performing the board evaluation. The main purpose is benchmarking. The goals expressed are possibly “What are other boards doing? How are we doing compared to them”? And not goals the boards themselves have identified and which they work towards. This is confirmed by the Chairperson, expressing benchmarking as being the important issue:

“No, we are not there, not with goals and such. We like to see where we are, compared to others. (CP)

The gap between IBM 2 and the other interviewees appears to be related to her experience from other boards, and from being a member in a nomination committee. She knows the evaluations in general are used for recruitment purposes, and thus perceives the purpose to be evaluation of board competence. However, the Chairperson expressed that the purpose of the board evaluation is **not** to assess competency as this is done by the Chairperson himself and the Nomination Committee:

“But you can say that the real evaluation of each board member, it’s done by the nomination committee and myself. “ (CP)

And that the formal evaluation is performed to conform:

It’s primarily to follow the recommendations, and it has given some useless information and also some things of course that I think are... ok.(CP)

To summarize, benchmarking is not an expressed purpose in the aid memoire, while measuring performance against something IS expressed. That is why three of the interviewees identify themselves with this objective. And it is inherent when performing an evaluation that it is conducted for the purpose of developing. To express something else would be strange. What the Chairperson and the IBM perceive as discussions appear to be the information given to the board members before the evaluation form is distributed, not a discussion of the board evaluation purpose before the evaluation is developed.

“For whom” Intended recipients

As mentioned, the Chairperson perceives the board itself as the main recipient, but also let the CEO go through the result.

The Chair of the nomination committee gets some information regarding the evaluation from the Chairperson, but does not have access to the evaluation result as such:

“Of course the board receives the evaluation..... As to the nomination committee you can say that the chairperson gets an insight into it, but it is not from that information they

make changes to the board. It isn't. So it is really for the board, and the CEO gets to go through it." (CP)

The IBM expresses lack of knowledge about who gets the information, as she expresses herself normatively about his issue, and also refers to what the previous Chairperson did:

"We have talked about this and I think this is important to know before you go through these things.What do we want out of it? If this is a self-evaluation of the team, then we must keep it within the team. I think that's right and that's what we did with the last Chairperson, but I don't know how.....it's conducted now." (IBM1)

The EEBM perceives the Chair as the only recipient of the evaluation as the board does not get the result of the evaluation as such. They are only given a presentation regarding the result, a presentation made by the external consultant:

"It was proposed to the board by the consultant in charge of it..... It is presented to the board within a time limit; I had some critical comments to the presentation. It could have been more thorough.....(You perhaps get the report?) We don't receive the report. It is just presented. (Other people who get it?) I don't know, but I assume the Chair gets it. This is natural. They have paid lots of money so they must get something in return." (EEBM)

The IBM2 perceives the board and the nomination committee as the recipients:

"We get a summary showing where we have some improvement potential, areas where people are dissatisfied, the good things and any comments that have been made on the various issues. So the board is the primary recipient.....The nomination committee is also an important recipient."(IBM2)

Why this gap?

First of all, it's evident that the IBM2 uses her experience as a member of a nomination committee when she answers this question. The fact that board members lack information about who receives the result is the consequence of these issues not being discussed in the boardroom. Why this is the case is not easy to say, but the fact that the largest owner is also the Chairperson might be an important factor. For board members to ask questions about the process appear to be difficult and not something you really do. This is indirectly expressed by the IBM1 when she expressed who should receive the result, what was done before the change of Chairperson, and not knowing who received it then. As the Chairperson sees evaluation as a product that is prepared in order to conform and that the real evaluation is performed by him, he sees this board evaluation as something that belongs to the board and no one else.

"What" Content of the evaluation

The interviewees were asked to identify which of the following elements reflected the content of the board evaluation most accurately:

Statement 1:

“The board evaluation looked at the board activities during the year, and the results of these activities were measured against what the board had planned. “

Statement 2:

“The board evaluation focused on benchmarking the board’s structure and work against national laws and codes. “

Statement 3:

“The board evaluation looked at the board culture/processes in order to establish to what degree the processes contribute to value creation. (Does the board work as a team that ensures cohesiveness/creativity/openness and generosity/critical and questioning attitude/preparation, participation and commitment)”

Statement 4:

“The evaluation looked at the structure of the board to establish if it supports the work of the board. (This may include evaluation of sub-committees and their work/the size of the board/board meeting structure/CEO and board instructions/ leadership style of chairperson)”

Statement 5:

“The evaluation looked at to what extent the board members (their professional background, their competencies/ personal characteristics) align with strategy of the company. “

The Chairperson expressed the following to be included in the evaluation:

“Point 3 I think covers it the best.”But the part about the structure of the board and its workings (Pont 4), that covers a bit.(Background and competence, are they important? Whether they are in line with the company’s strategic goals?).... No, that’s the nomination committee. There is nothing more to add, everything is covered in point 3. And 4. (CP)

IBM1 perceive point 3 and point 1 to be the statements that best reflect the content of the board evaluation:

“I have crossed off dash 3 (culture and work procedure). Yes. That’s the most important. Dash 1 is also important.” (IBM1)

The EEBM perceived that content is related to board effectiveness, board culture, and structural issues:

“Dash 1 is very clear.....Dash 2 – no.....Dash 3 – Quite agree.....Dash 4 – the last sentence: how the chair conducts his commitments.” (EEBM)

IBM2 perceives the evaluation to contain elements that are related to most of the statements:

“Dash 2 is an important element in the evaluation. ...the composition of the board: obvious. Culture? Yes. Way of working? Yes. Contribution to value creation? I am not sure. Board culture and working processes are the most important.....Composition and structure of the board? Yes..... Subcommittees and their tasks. Yes..... Management instructions. That’s reviewed at a normal board meeting. You go over the instructions and so on.....How the chair fulfils his duties. That’s part of it.....Competence? That is an important point. Do we have the right competence in the board?” (IBM2)

Why this gap?

As no access to the actual evaluation form is possible, the form cannot be used when identifying and explaining the gap(s). According to the Chairperson, the evaluation form contains about 100 questions:

“I think it’s about 100 questions, not far off.”(CP)

It’s realistic to assume that an evaluation form with 100 questions has elements related to several aspects of board work, such as the processes within the board, the input the board gets from management, how involved the board is in different aspects of board activities, control, strategy etc. As this evaluation is used to benchmark, these are typical elements against which it is possible to measure a board. The interviewees identify elements of the evaluation to be related to what they perceived as the purpose, but also include elements not defined as the purpose. This might indicate that they are mixing the means and the ends of the board evaluation. Using such a large number of questions in one evaluation runs the risk of losing focus, including too many elements, and may lead to decreased validity because the respondents lose interest as they respond. Another problem when the purpose of the evaluation is benchmarking may be identified. A board which knows that benchmarking is the sole purpose might become strategic in their responses, a consequence being that the evaluation does not necessarily reflect the reality, as implied by the Chairperson:

“We benchmark ourselves against them. It’s a bit scary, because if the scores are too good, we may get self-satisfied. The board is very pleased with itself. It’s close to being right, but there are some areas that have an improvement potential, which we are working on.” (CP)

“Who” Performing the evaluation

The Chairperson identifies a process where the external consultant, the Chairperson, and the board are involved in the process of developing the evaluation:

“The chair and the board collective. It is a joint effort but I make the agreements and sign the bills, to put it like that! I go over the evaluation with the external consultant first. How should we take it, how comprehensive and whether there is a special focus. Then we bring it up on the board, get new input if there are any and then they work out a survey.” (CP)

The board members do not express any knowledge of the development process other than that an external consultant is used, and that they receive the evaluation form by email:

“(It is the external consultant who facilitates the evaluation? You receive this by mail from the consultant, return it by mail to him and get this presented at a board meeting?) Yes, that’s correct. (EEBM)

In S4 we used external.....I’ve never experienced a chairperson making up his own questions. They cut and paste. But you can of course cut and paste in many ways. (IBM2)

In addition, only one of the board members has any knowledge of the rationale behind the chosen solution using an external consultant. The rest, including the Chairperson, appear to have no knowledge of the reason why this solution has been chosen.

“I don’t know, this was introduced by a former chair of the board” (CP)

“I don’t know. That’s the method that has been used the past years and is a bit historical.” (EEBM)

“It was the former Chairperson who introduced it. Things were very turbulent.... with board members coming and going. So we agreed to conduct a board evaluation and then it was suggested using an external consultant because he had used him on another case. (IBM1)

A gap between the interviewees regarding clear secondary goals has also been identified. According to the Chairperson, the goal is to be better than other boards, and thus there are no specific scores identified that related to the different questions which indicate goal attainment:

“(What is it that makes you say, “We have reached this goal?”)....No, we are not there, not with goals and such. We like to see where we are compared to others.” (CP).

This is the perception of the EEBM as well:

“(When is the goal attained?) I’m not sure but again this is benchmarked against others.” (EEBM)

While the IBM2’s perception is that clear goals exists:

“(What is goal achievement?) 3 and 4 if you are satisfied. 5 is very good.” (IBM2)

While the IBM 1 indicates that clear goals are impossible to generalize:

“It all depends on what you measure.” (IBM1)

Regarding the length of discussion, there are huge gaps between the interviewees. According to the Chairperson, the process related to presenting the result of the evaluation and the discussions in connection to the presentation is lengthy:

“Yes, when we present evaluations, they are part of a regular board meeting. After the consultant has presented and answered questions, we have a discussion without him present.....We have a discussion lasting a few hours when this is done.” (CP).

This is aligned with how one of the IBMs perceives the process:

"It can take a couple of hours." (BM2)

While the EEBM finds the discussions to be much shorter:

30 to 45 minutes. (EEBM)

IBM1 does not indicate anything regarding how much time is used to discuss the result.

Why these gaps?

It appears to be important for the Chairperson to stand out as a person whose management style is inclusive and open:

"We have a very open atmosphere. I would say the mood is warm and sincere. If somebody thinks we should study something more closely, we are open to that, so I would say that they all have a large degree of influence." (CP)

In this case it seems clear that the board members are not involved in the process other than responding, and the gap is related to the Chairperson's perception of the evaluation model. Regarding the rationale behind the chosen evaluator, this solution was introduced by the board before the current Chairperson got his seat. He has continued using the external consultant, but his argument is time and anonymity:

"I think it's a very useful solution that you have an external person do it, it's a lot of work, or else you have to approach the administration, it's the board's own document and own process, and then I think it's sensible to use (external)." (CP)

The reasoning behind using the modality is not discussed at board level, and therefore the rationale is not known. As indicated by IBM1:

"The chair suggested we use the external consultant and his method." (IBM1).

It is evident that when benchmarking is the main purpose, goal attainment is dependent on what other companies do and how they perform. IBM2 appears to use her experience regarding the presentation of the result and which scores are considered as good enough. The other IBM acknowledged that goal attainment exists, but need to be differentiated in accordance with what the subject is. It is evident that acceptable performance has never been discussed. IBM1 is thus offering an explanation as to why this is the case.

The EEBM indicated in his interview that he was not totally satisfied with the presentation of the result and the fact that they did not get the written result of the board evaluation, just a short presentation. Because of this he might be more prone to indicate that little time was used. However, the IBM when interviewed was answering on behalf of two different listed companies as she has a seat in two of the companies in my sample. She indicated up to two hours, without specifying which of the two companies she means.

“Follow-up” on the result

Internal follow-up

No gaps exist between the interviewees regarding internal follow-up. There are no specific follow-ups on the evaluation.

The reasoning behind this is perceived differently though. The EEBM seems to think there is no need for a follow-up:

“After it has been presented at the board meeting, I can’t recall that we have done anything special with it. It’s been there and that’s it. (Is that because you are better than the benchmarking?) There haven’t been any flashing red lights, no, so there has been no need to spend any resources on this.” (EEBM)

The IBM 1, however, appears to think that follow-up depends on the board. If the board dares say what they **really** meant, there would be a follow-up. But basically he indicates that this is the responsibility of the Chairperson.

“This depends on the board. If you dare to say, “Hey, now we are doing something we said we wouldn’t do.” Otherwise it’s up to the chair to get this to work better. It’s the team’s job to follow up, but this lies with the chair.” (IBM1).

The Chairperson indicates that follow-up has not been needed, or if needed, there has not been time:

“Then we follow up. There have been some years where we have been so satisfied that there wasn’t much to follow up.....And then there is something that came up at the last evaluation. We sent it to the committee, to work on it, butwe are three members in the committee. Perhaps we should be four. Because there is a lot.” (CP)

External follow-up

The Chairperson indicates that any external follow-up is based on other input than the board evaluation. IBM1 and IBM2, however, perceive that there is a link between the evaluation result and a possible external follow-up

“(How about lack of competence?)That takes a little more time. That is something for the nomination committee to get involved in and then it will take it up for the next general assembly to do anything about it.” (IBM2).

“(How about competence gap?) That’s the easiest. If we get in more technical competence, that’s easy It’s when you touch on how the team functions that it gets hard.” (IBM1)

The EEBM, however, does not identify any external follow-up.

Why the gap?

The Chairperson appears autocratic when it comes to deciding who will be a board member (to the limit of his possibilities). It appears clear that he does not use the board evaluation in this matter. Both the IBMs perceive the result of the board evaluation as input to the Nomination

Committee, but are not involved in the process, as this is assumed to be the responsibility of the Chairperson:

“It’s the team’s job to follow up, but this lies with the chair to get this to work, but that depends on the chair.” (IBM2)

4.5.3 Preferred model

The board members appear very content with the board evaluation process, and thus their preferred model of board evaluation aligns to a large extent with their perceived model of board evaluation. The only interviewee with a preferred model which is somewhat different than the perceived model is the EEBM. This is identified in section 4.5.4.

4.5.4 Summary

Several gaps between how the board members perceive the evaluation process have been identified. Possible reasons for these gaps have been offered. Below is a summary of these gaps.

Table 4.5.1 Summary of gaps between interviewees perceived model of board evaluation in S4

Element of the process	Gap	Where?	Who?	Why?
“Why” Purpose of the evaluation	Yes	The Chairperson perceives the main purpose to be benchmarking, and also to conform to the codes. Board members deviate in their perceived purpose. While IBM 1 and the EEBM both identify benchmarking as the main purpose, IBM 2 perceive the purpose to be an evaluation of board processes and board competence.	CP: Benchmarking IBM (1): Benchmarking IBM(2): Board processes and board competence EEBM: Benchmarking	The Board does not discuss or decide on any purpose. The purpose appears to be given by the use of the external consultant
“For whom” Intended recipients of the result	Yes	The Chairperson indicates that the Board and the CEO get the result, while the Nomination Committee get some indication about the result from the Chairperson. Board members deviate in their perception of who get the results of the board evaluation..	CP: The Board, the nomination committee and the CEO IBM(1): The Board EEBM: The board IBM(2): The Board and the Nomination Committee	Intended recipients are decided by the Chairperson and not discussed with board members. Therefore little knowledge about who receives it
“What” Content of the evaluation	Yes	The Chairperson’s perception is that the board evaluation contains elements related to evaluating board processes and board structure. Board members deviate in their perception of the content, indicating that there are elements related to evaluation of board effectiveness, board tasks against laws and codes, board processes, board structure, and board competence.	CP: Board processes and board structure IBM(1): Board processes, and board effectiveness IBM(2): Evaluation of performed tasks and board structure against laws and codes, board processes, and board competence EEBM: Board effectiveness, board processes and board structure	The evaluation contains about 100 questions. Categorization the content is thus difficult. Most board members indicate the purpose to be benchmarking and thus indicate a comprehensive evaluation.
“Who” Evaluator	Yes	The Chairperson indicates that the evaluation is developed by the external consultant, with input from Chairperson and the Board. Board members perceive the external consultant to be the only one involved.	CP: Developed by the external consultant with input from the Chairperson and the Board. IBM (1): The external consultant IBM(2): The external consultant EEBM: The external consultant	The Chairperson perceive a high involvement from the collective board, while the board members indicate no involvement
“How” Modality	No	The evaluation process is a quantitative survey where individual members respond for the board collectively. This survey is followed by an individual interview with board members performed by the external consultant		
“How” Clear secondary goals	Yes	The Chairperson model indicates that there are no identified internal clear goals; the goal is to get a higher score than those companies compared with. The perceived model deviate in terms of whether the goals are clear or not	CP: No clear goals set. The goal is to have a better score than those benchmarked against IBM(1): No clear goals because some issues cannot be measured IBM(2): Every score above 3 is fine EEMB: No clear goals other than get a better score than those benchmarked against	No discussions have been undertaken regarding the purpose of the board evaluation. It appears to be different perceptions regarding this issue, and therefore different perceptions about what goal attainment is.
“How” Discussions of the result	Yes	The Chairperson indicates the board evaluation is presented and discussed for 2 hours. This is aligned with IBM1 and IBM2 perceived model a, but not the perceived model according to the EEBM.	CP: 2 hours IBM 1: 1 hour presentation, then discussions IBM2: 2 hours EEMB: 30-45 minutes	The gap between the Chairperson and the EEBM might indicate a certain dissatisfaction with the board’s involvement in the board evaluation
When	No	Once a year		
Follow-up Internal	Yes	All interviewees align in their perceptions regarding internal follow-up. There is no specific internal follow-up. However, the reasons for no follow-up deviate.	CP: No time for follow-up IBM1: Chairpersons responsibility IBM2: Follow-up dealt with when the result is presented EEBM: No need for follow-up	No follow-up exists, and the different interviewees justify this differently
Follow-up external	Yes	The Chairperson indicates no external follow-up is based on the evaluation result, while IBM1 and IBM2 perceive elements related to board competency to be follow-up externally. EEBM do not identify any external follow-up	CP: No follow-up based on the result IBM1&IBM2: Follow-up related to competency EEBM: No follow-up identified	The board members are not informed about the possible use of the result of for the nomination committee, and thus they have no knowledge regarding this

Table 4.5.1 summarises the identified gaps between the interviewees’ perceived model of board evaluation. These gaps will be discussed further at an aggregated level in section 4.12 and 4.13, suggesting reasons why they exist. The findings in section 4.13 will be put forward to chapter five with the intent of discussing possible measures to close these gaps through the development of a model for board evaluation in listed companies in Norway.

Although there are many gaps identified between interviewees' perceptions of the evaluation model, there are few gaps between how they perceive the model and what they prefer. The gaps are summarized below.

In the situation where there is a gap between the interviewees' perceived model and preferred model, this is indicated in **bold**.

Table 4.5.2 Gaps between interviewees perceived and preferred model of board evaluation in S4

Element of process	Gap	Where	CP	IBM 1	IBM 2	EEBM
"Why" Purpose of the evaluation	Yes	The Chairperson perceives the main purpose to be benchmarking, and also to conform to the codes. Board members deviate in their perceived purpose. While IBM 1 and the EEBM both identifies measuring board effectiveness (benchmarking) as the main purpose, IBM 2 perceive the purpose to be an evaluation of board processes and board competence.	Preferred model align with own and IBM1's perceived and preferred model, but not with IBM2's perceived and preferred model, or EEBM's preferred model	Preferred model align with own and CP perceived and preferred model, but not with IBM2's perceived and preferred model, or EEBM's preferred model	Preferred model align with own perceived model but not with anyone else perceived and preferred models.	Would like more focus on setting clear goals which is linked to the strategic plan of the company
"For whom" Intended recipients of the result	No					
"What" Content of the evaluation	No					
"Who" Evaluator	Yes	The Chairperson indicates that the evaluation is developed by the external consultant, with input from the Chairperson and the board. Board members perceive the external consultant to be the person in charge of the whole process.	Preferred model aligns with own and IBM1 and IBM2's perceived and preferred model, but not with EEBM's preferred model	Preferred model aligns with own, CP and IBM2's perceived and preferred model, but not with EEBM's preferred model	Preferred model aligns with own, CP and IBM1's perceived and preferred model, but not with EEBM's preferred model	Would prefer another external consultant to get a new angle.
"How" Modality	No					
"How" Clear secondary goals	Yes	The Chairperson model indicates that there are no identified internal clear goals; the goal is to get a higher score than those companies compared with. The perceived model deviate in terms of whether the goals are clear or not	Preferred model aligns with own perceived model, but not with IBM1 or IBM2's perceived or preferred model, or with EEBM's preferred model	Preferred model aligns with own perceived model, but not with CP or IBM2's perceived or preferred model, or with EEBM's preferred model	Preferred model aligns with own perceived model, but not with IBM1 or IBM2's perceived or preferred model, or with EEBM's preferred model	Would like the goals to be more related to strategies of the company
"How" Discussions of the result	No					
When	No					
Follow-up Internal	No					
Follow-up external	No					

As can be seen from the table, some gaps between interviewees' perceived and preferred models of board evaluations have been identified. These gaps will be transferred to chapter five and analyses at an aggregated level will be performed.

Further, a preferred model of board evaluation based on input from interviewees will be identified and used as input for developing a model of board evaluation in listed companies in Norway.

Based on interviewees, the following perceived actual model of board evaluation has been identified in S4:

Table 4.5.3 Perceived actual model of board evaluation in S4

Element of the process	Board evaluation	Board member involvement and influence
Evaluation form	Formal and written	First give response via a survey, and then a 90 minute individual interview
Purpose of evaluation “Why”	Benchmarking of the board collectively	Not involved in deciding purpose
Communication “For whom”	Result communicated to the board, Nomination Committee and the CEO	Not involved in deciding recipients
Content of evaluation “What”	No information about the detailed content	Not involved in deciding content.
Evaluator “Who”	The Chairperson and the external consultant	Not involved in deciding the evaluator
Modality used “How”	Quantitative Evaluation of all board members Board collectively	Not involved in deciding the modality
Clear Secondary Goals	No clear goals set. The goal is to get a better score than the board’s benchmarked against	Not involved in deciding what goal attainment is
Discussions of the result	The result is presented by the external consultant. The board does not get the whole report. The presentation and discussions thereafter take between 1 and 2 hours	Discussions related to the elements presented.
When timing of the evaluation	Evaluation once a year as indicated by the codes	Not involved in deciding when
Follow-up internally	No specific follow-up	Not involved in any specific follow-up
Follow-up externally	No specific follow-up	Not involved

Analysis of the perceived actual model of board evaluation will be performed at an aggregated level in chapter five. It will be used as input to identify the approaches adopted by Norwegian listed companies regarding board evaluation, and the factors influencing these approaches in addition to being used to identify a model for board evaluation in listed companies in Norway.

4.6 Company S5

4.6.1 About the company

Taken out for anonymity purpose

4.6.2 Gap analysis of interviewees' perceived models of board evaluation

Based on the analysis performed, several gaps between how the interviewees perceive the model of board evaluation were identified. These are identified and discussed below in terms of possible reasons why they exist.

"Why" Purpose of the evaluation

The purpose of the board evaluation according to analysis of the evaluation form is a combination of assessment of board processes, board competence and elements of what is defined as the board's evaluation (evaluation of management's work). The IBM perceives the purpose to be related to an evaluation of board processes:

"I thought that what I experience in S5, and also in other companies, is a focus on how the board functions together as a board. How we interact with the administration. I see from the questions and also how I remember the situation that there is an interaction between the board and the administration and this is the main focus. (IBM)

The EEBM perceives the main purpose to be measuring board effectiveness. One of the questions in the aid memoire was to identify which of five statements described the purpose of the previous board evaluation, where the first bullet point is quoted below:

Question 1.1 - bullet point 1:

"The main objective is to ensure that the goals set by the board are achieved."

The EEBM responded as follows:

"Looking at these bullet points I would say it's the first one that is the main objective of the board evaluation. That you have achieved the goals, the strategic and operational objectives that have been set Then you can always introduce other things, but nevertheless this is the goal as I see it. (EEBM)

This is different from how the IBM perceives it:

"I therefore found that there was no objective regarding evaluation of the set goals, and whether the board had fulfilled them and played its part in reaching these goals" (IBM).

Both board members agree that the purpose of the board evaluation is not discussed at board level, but they both perceive the purpose as being indicated by the heading of the form and the minutes from last year, which makes such a discussion less necessary

*“(Do you feel that the purpose is given by the questions?) Given by the questions.”
(EEBM)*

“I see that the heading of the survey provides the objective, which is the self-evaluation of the cooperation between the management and the board of the company. So compared to my experience from other boards the objective was clearer to me. What I nevertheless reflected upon was whether we had had a discussion. It was taken more for granted.” (IBM)

Why these gaps?

As will be further identified and discussed later, the evaluation process is a relatively informal one, where the responses of the board members are not collated and analyzed. The form is just used as a starting point for any discussions at board level. The employee-elected perceived main purpose of measuring board tasks against set goals might be related to his view that any necessary tasks are identified by the agenda, and thus the agenda IS the goal. The board members both feel the purpose of the evaluation can be identified through the evaluation form. Nevertheless, they identify different purposes of the evaluation. These gaps are the result of the purpose not being discussed at board level at all, or that the board members have a misconception of the purpose due to lack of understanding of board evaluation.

“For whom” Intended recipients of the result:

While the EEBM perceived the board as the only intended recipient, the IBM perceived the nomination committee as an additional recipient:

(Is the board evaluation an input to the nomination committee?) “No. I don’t think the nomination committee knows anything about this evaluation. It’s more as medicine internally. You see how the board collectively works.....I think it’s just the board. Can’t say it 100% definitely but I don’t think it is distributed to anybody else.” (EEBM)

“The point was that the chair speaks to the nomination committee. It was a condition that the summary we made should be returned to the nomination committee. Apart from that, these are minutes that go to the board, so I don’t think we discussed and I can’t imagine that anybody else apart from the nomination committee and the board would be the natural recipients of them.” (IBM)

Why the gap:

The gap between the EEBM and the IBM is possibly related to differences in board experience between the two. According to the IBM, this appears to have been discussed during the evaluation process, possibly at the board meeting where the evaluation was performed and the minutes were made. Such a discussion is not identified by the EEBM. To what degree it has been discussed is impossible to say since the two interviewees deviate on this point. But the IBM’s experience from many boards might be a factor in the sense that she knows from previous processes who the result is distributed to.

“What” Content of the evaluation:

When the interviewees were asked to identify the content of the board evaluation through some statement, the EEBM identified elements related to board processes, board structure and board effectiveness. The IBM identifies elements related to board processes to be included, where the role of the management has been the main focus. Below are their responses to the different statements:

Statement 3:

The board evaluation looked at the board culture/processes to establish to what degree the processes contribute to value creation. (Does the board work as a team that ensures cohesiveness/creativity/openness and generosity/critical and questioning attitude/preparation, participation and commitment)

“Bullet point 3 about how we work and whether we have contributed to value creation and working as a team, yes, that’s part of it. And that we are committed and prioritize the work.” (EEBM).

“I find that the next point is something we are not good at (statement 3), because the board as a team hardly existed in 2006/2007. So we did not challenge each other’s competence, how shall we work on these tasks? What focus should we have? We didn’t evaluate individual strengths and weaknesses. We spent more time on how we challenge the administration. Could we have challenged them more? How does the administration see us working? What should we as a board work harder on?”. “(But you are saying now that the S5 evaluation is not a self-evaluation, but an evaluation of others?) That’s quite right. And the interaction skills and which new demands you can make of the administration.” (IBM)

Statement 1:

“The board evaluation looked at the board activities during the year, and the results of these activities were measured against what the board had planned.”

“The first statement. Absolutely. That’s part with the board’s activities and tasks. That’s part of what we have responded to. You have a plan for the activities you expect to see handled on the board and a two day strategy meeting in June when we go deeper into the strategy. In the autumn there are a couple of fixed items. Things about the management and bonuses and salaries and things like that, so that you have gone through things that are on the agenda. ” (EEBM)

Statement 4:

The evaluation looked at the structure of the board to establish if it supports the work of the board. (This may include evaluation of sub-committees and their work/the size of the board/board meeting structure/CEO and board instructions/ leadership style of chairperson)

“The evaluation has been within the area of how you divide the tasks between the audit committee, and may be in bullet point 4. (EEBM)

Statement 5:

Evaluation looked at to what extent the board members (their professional background, their competencies/ personal characteristics) align with strategy of the company.

“As to the last point – competence and background. That was an item during the election process.....but not in our evaluation.” (EEBM)

Why this gap?

As indicated earlier, a reason for this might be the informal structure of the board evaluation. Informal in the sense that the board members never return the evaluation form before discussion, just bring their answers to the board meeting for discussion. The Chairperson directs the discussions. What the board members perceive to be the content might therefore be related to which elements are being discussed or which elements are reflected in the minutes from the last meeting and not the evaluation form itself.

“Who” Performing the evaluation and “How “ Modality used in the evaluation

All interviewees agree on the fact that the existing process has been used all the time they have been board members and their perceived involvement in the process aligns:

“We receive the questionnaire and then we just bring it to the board meeting when it is dealt with. Then it’s been like it’s the board collectively that goes through it. (No summary of what people have answered?) No. There hasn’t been. It’s just been a discussion around the table. Nobody has sent in anything beforehand. You get some questions and then you bring with you your responses. Then we talk about the questions, if anybody has any views or ..(Does the chair send out the questionnaire?) No, it’s the board secretary. (No summaries?) No nothing. Just a chat around the table.” (EEBM)

“Actually it’s the administration that sends this out along with the board’s documents, then the chair directs the discussion.” (IBM)

There seems to be little knowledge about the evaluation form regarding who developed it or when it was used for the first time.

“I don’t know why they chose this solution. I don’t know how long they have evaluated this way, I just know they had it before I joined.” (EEBM)

“No. I don’t know.” (IBM)

Follow-up on the result

Internal follow-up

Both board members agree that there is a certain internal follow-up.

According to the IBM, any follow-up is written in the board minutes produced in relation to discussions in the board in connection with the board evaluation:

“We received the minutes from the previous year and a questionnaire for self-evaluation that we are encouraged to fill in and reflect over before presenting our opinions orally at the next meeting. Then the new minutes are written, with the summaries of what we are going to follow up.” (IBM)

The interviewees’ perceptions diverge regarding what in fact is being followed-up.

The IBM perceives the follow-up as being related to issues regarding management:

“I can see how things were formulated for the administration and these things were signed off after a couple of meetings.” (IBM)

The IBM used the minutes prepared after the discussion when answering this question, and as such assumptions can be made that her perceived view is aligned with the actual view.

According to the EEBM, the follow-up from the board evaluation is related to the board’s agenda:

“But then there may be a case we need to follow closely. For example cases that we haven’t succeeded in, but will follow carefully next year. That we follow up.” (EEBM)

External follow-up

None of the interviewees identified any external follow-up as a consequence of the evaluation result.

Why this gap?

Follow-up identified by the EEBM is closely related to how he perceives the purpose as measuring board work against the agenda. Preparation of the agenda is the responsibility of the Chairperson. That is probably the reason for his lack of knowledge in the follow-up process:

“(Do you implement projects, or is it everybody’s responsibility to follow up?) It’s the chair’s responsibility if there are things we think should be on the agenda, it’s his responsibility.” (EEBM)

4.6.3 Preferred model of board evaluation

Board members seem to a large extent to prefer the perceived model of board evaluation. As the EEBM puts it:

“(But you agree with the purpose?) I think it is good, because if there are things we think can be done differently with the meeting arrangements, or with the discussions, or the chairperson’s way of working, then you can introduce some corrective measures or at least state your opinion. Since it’s a special item on the board meeting there will be an honest discussion of things.” (Do you think this is an ok way to do it, or would you prefer a more formal method?) I think it’s all right since everybody gets to say their meaning. That you can have a discussion around the table without giving anything in writing; that could be a very forceful “this is my opinion”. You don’t have to fill in that much, it doesn’t need to be a whole thesis. You just note down some points that you want to touch on.” (EEBM)

The IBM seemed, as the interview progressed, more aware of the possible flaws of the board evaluation which had been adapted and expressed in some situations that the preferred board evaluation was different than the actual/perceived model:

“(Would you want that part of the Board processes to have had higher priority in S5) Yes. For me that is a natural part of an evaluation process if you want the board to function as a team. You have to be more interested in the individuals in order to understand what sort of competence each member has. (Is this something you were missing and would have wanted more focus on?) Right.” We are constantly discussing in Norway the role of the board and how it is becoming ever more important, so I think we will tend to focus more on board members’ competence, also individually. How it is made visible and interacts with the others on the board.” (IBM)

4.6.4 Summary

Several gaps between how the board members perceive the evaluation process have been identified. Possible reasons for these gaps have been offered. Below is a summary of these gaps

Table 4.6.1 Summary of gaps between interviewees' perceived model of board evaluation in S5

Element of the process	Gap	Where?	Who?	Why?
"Why" Purpose of the evaluation	Yes	The IBM identifies evaluation of board processes as being the purpose, while the EEBM perceive the purpose to be an assessment of board effectiveness	IBM: Board Processes EEBM: Assessing board effectiveness	Purpose not discussed, but perceived obvious by board members. Misconception from the EEBM about what board effectiveness is.
"For whom" Intended recipients of the result	Yes	IBM identifies the board and the nomination committee as recipients. While the EEBM perceive the board as the only recipient	IBM: The Board and the Nomination Committee EEBM: The Board	No discussion at board level regarding recipients. The EEBM perceive the evaluation as internal medicine, and thus the natural recipient is the board
"What" Content of the evaluation	Yes	While the IBM perceived content to be related to board processes and board's evaluation, the EEBM identify the content to be related to assessment of board effectiveness, board processes and board structure	IBM: Board processes and board's evaluation. EEBM: Board processes, board structure and assessing board effectiveness	Board members responses are not collected, collated and analyzed; responses are brought to the board room and used as input for discussions. Perception about content might be related to issues being discussed, or lack of involvement in the process.
"Who" Evaluator	No	The Chairperson's overall responsibility, but no organized process other than the board secretary sending out the forms.		
"How" Modality	No	The evaluation form identifies this as a quantitative evaluation, but based on the way it has been used it categorizes as a qualitative evaluation, where the board collectively is evaluated		
"How" Clear secondary goals	No			
"How" Discussions of the result	No	For about an hour		
When	No	Usually every year		
Follow-up Internal	Yes	According to the IBM, follow-up is related to input to the board from management. The EEBM perceived follow-up is related to closing the gap between the set agenda and tasks performed during the year. The Chair is responsible for the follow-up by including these cases on the coming agenda.	IBM: Follow-up related to input from management EEBM: Follow-up related to cases needing more attention next year.	The EEBM perceive the responsibility to rest with the Chairperson.
Follow-up external	No	Interviewees do not identify any external follow-up as a result of the board evaluation		

Table 4.6.1 summarises the identified gaps between the interviewees' perceived model of board evaluation. These gaps will be discussed further at an aggregated level in section 4.11 to 4.13, suggesting reasons why they exist. The findings in section 4.11-4.13 will be put forward to chapter five with the intent of discussing possible measures to close these gaps through the development of a model for board evaluation in listed companies in Norway.

From the analysis, a table summarising the gaps between the interviewees' perceived and preferred models of board evaluation can be presented. In situations where there is a gap between the interviewees' perceived and preferred models, this is indicated in **bold**.

Table 4.6.2 Gap between interviewees perceived and preferred model of board evaluation in S5

Element of the process	Gap	Where	Chairperson	Independent Board member	Employee-elected Board member
"Why" Purpose of the evaluation	Yes	The IBM identifies evaluation of board processes as being the purpose, while the EEBM perceive the purpose to be an assessment of board effectiveness	Evaluate actual work against set goal. What the board want to achieve and decide how to achieve it	Preferred purpose aligns with own perceived purpose but not with perceived and preferred purpose according to the EEBM and preferred purpose according to the CP	Preferred purpose align with own perceived purpose but not with perceived and preferred purpose according to the IBM and preferred purpose according to the CP
"For whom" Intended recipients of the result	No				
"What" Content of the evaluation	Yes	While the IBM perceived content to be related to board processes and board's evaluation, the EEBM identify the content to be related to assessment of board effectiveness, board processes and board structure		Want more of the evaluation related to the Chair, and more evaluation of individual board members, their competence and interaction between board members	Preferred model align with perceived model but not with IBM's preferred model.
"Who" Evaluator	Yes	The Chairperson's overall responsibility, but no organized process other than the board secretary sending out the forms.	Want strong involvement from the Chairperson during the whole process	Preferred evaluator aligns with own and EEBM's preferred and perceived evaluator, but not with CP's preferred evaluator	Preferred evaluator align with own and IBM's preferred and perceived evaluator, but not with CP's preferred evaluator
"How" Modality	Yes	The evaluation form identifies this as a quantitative evaluation, but based on the way it has been used it categorizes as a qualitative evaluation, where the board collectively is evaluated		Want more evaluation of individual board members, their competence and interaction between board members	Preferred model align with own perceived model but not with IBM perceived and preferred model
"How" Clear secondary goals	No				
"How" Discussions of the result	No				
When	No				
Follow-up Internal	Yes	According to the IBM, follow-up is related to input to the board from management. The EEBM perceived follow-up is related to closing the gap between the set agenda and tasks performed during the year. The Chair is responsible for the follow-up by including these cases on the coming agenda.		Want more follow-up related to board member behaviour and interaction, and not follow-up related to management	Preferred model align with own perceived model but not with preferred model according to IBM.
Follow-up external	No	Interviewees do not identify any external follow-up as a result of the board evaluation			

As can be seen from the table, some gaps between interviewees' perceived and preferred models of board evaluation have been identified. These gaps will be transferred to chapter five and analyses at an aggregated level will be performed. Further, a preferred model of board evaluation based on input from interviewees will be identified and used as input for developing a model of board evaluation in large listed companies in Norway.

Based on analysis of interviews and the evaluation form used, the following perceived actual model of board evaluation has been identified in S5:

Table 4.6.3 Perceived actual model of board evaluation in S5

Element of the process	Board evaluation	Board member involvement and influence
Evaluation form	Formal and written	Reflect on questions and bring these reflections to the board room table
Purpose of evaluation "Why"	Evaluation of board processes Input to Nomination Committee	Not involved in deciding purpose
Communication "For whom"	Result communicated to the board, the Nomination Committee and the CEO	Not involved in deciding recipients
Content of evaluation "What"	22 questions Board's role 8 (36 %) Board processes 4 (18 %) Competence: 4 questions (18%) Board's evaluation: 6 questions (27%)	Not involved in deciding content.
Evaluator "Who"	The Chairperson's overall responsibility, but no organized process other than the board secretary sending out the forms.	Not involved in deciding the evaluator
Modality "How"	Quantitative Evaluation of all board members Board collectively	Not involved in deciding the modality
Clear Secondary Goals	No	Not involved in deciding what goal attainment is
Discussions of the result	For about an hour	Involved
When timing of the evaluation	Evaluation once a year as indicated by the codes	Not involved in deciding when
Follow-up internally	No specific follow-up	Not involved in any follow-up
Follow-up externally	Nothing identified	Not involved

Analysis of the perceived actual model of board evaluation will be performed at an aggregated level in chapter five. It will be used as input to identify the approaches adopted by Norwegian listed companies regarding board evaluation and the factors influencing these approaches, in addition to being used to identify a model for board evaluation in listed companies in Norway.

4.7 Company S6

4.7.1 About the company

Taken out for anonymity purpose

4.7.4 Gap analysis of interviewees' perceived models of board evaluation

Based on the analysis performed, several gaps between how the interviewees perceive the model of board evaluation were identified. These are identified and discussed below in terms of possible reasons why they exist.

"Why" Purpose of the evaluation.

The chairperson and the EEBM both perceive the purpose as being an evaluation of board processes and board competence.

"I see board evaluations primarily as a tool to improve work on the board. The fundamentals must be in order. It is also a way of communicating with the nomination committee. (So it's important to evaluate the processes?) Yes, I think that is very important because that is the whole point." (CP)

"What I wrote there was that the purpose of the evaluation is to improve the work on the board and teamwork in general. And also to uncover any weaknesses that can be improved; this is about the concrete board work on the board also with the administration. We have to ensure that we have the right processes both on the board and with the management and according to the framework we have established and the strategies, too. This is for us to improve our work and besides that the nomination committee receives the results of the evaluation."(EEBM)

The IBM also perceives an evaluation of board processes and board competence as perceived purposes, but adds the additional purpose to be an evaluation of whether the performed task aligns with goals set (board effectiveness)

"I think the first point is very appropriate, because I believe we must be responsible for the goals that have been set for the board and how we as a team manage to achieve those goals and do what we are supposed to. That's a winner." (IBM)

Although the Chairperson indicates that the purpose is discussed at board level, the board members do not perceive this to be the case:

"I haven't realized it's been expressed explicitly. It's more like "now we are going to conduct a board evaluation, because that's what boards are supposed to do." (IBM)

"It could be more concrete. We have discussed it and you understand it from the phrasing of the questions, but I think the objective could have been stated more clearly. (EEBM)

Why this gap?

To what extent a purpose exists appears to be unclear. The above analysis indicates that a clear purpose is not decided and discussed in a manner which makes it clear for the board what the purpose is. The analysis further suggests that any discussions performed before the evaluation involves information given to the board before the evaluation form is distributed.

“For Whom” Intended recipients of the result.

There are no gaps identified when it comes to identifying those who receive the result of the evaluation. All interviewees are aware that the board, the nomination committee and the CEO receive the result.

However, there has been no discussion about who should receive the result at board level. Communication of the result seems to be institutionalized in the sense that board members do not reflect upon the fact that there are many possible recipients. The board members give the impression that although this has not been discussed, they view these recipients as obviously related to the process and that this is a consequence of the fact that this board does not have any problems:

“When everything is working as it should then I think it’s natural that the results are sent to the board and the nomination committee and of course to the CEO.” (IBM)

This is also confirmed by the EEBM:

“There hasn’t been any discussion. It’s not been a topic and I expect that if somebody thinks it should be brought up, they would do it. It is as simple as that.” (EEBM)

Why this gap?

Again, we see that board members are not involved in the process other than answering the questions in the evaluation form, but they agree with the system of board evaluation the company uses. This might of course be because they understand the process and acknowledge this process as the best. Consequently they want to give the impression that the only reason they have not discussed it is because they agree. Or it may be that they do not have enough knowledge about what alternatives exists regarding possible recipients and as such have not reflected upon this. Or is it simply the fact that they leave these things to the Chairperson without any reflection, as they see this as his responsibility?

“What” Content of the evaluation

When asked to indicate what (overall) best describes the last board evaluation, all interviewees agreed that board effectiveness was an element in the evaluation form as indicated below:

Statement 1:

“The board evaluation looked at the board activities during the year, and the results of these activities were measured against what the board had planned.”

“You definitely need to include this bit about strategy. First dash.” (CP)

“I have marked the first dash. It is not a big issue, not very. We bring it up in discussions.” (EEBM)

“First dash. That’s right.” (IBM)

However, while the board members indicate that the evaluation contains elements about board processes, board structure and board competence, these are elements not identified by the Chairperson:

“a big mark at dash 3. That is discussed.... I have also checked dash 4 – composition and organisation of board”. Dash 5 – background and competence, I have touched on that as well (EEBM)

“Dash 3: Board culture, way of working? More work than culture... “Composition and organising of board? Yes. We touch on that. Committees? Yes. Size? Haven’t discussed that much..... How chair performs his duties? Yes. Not much on instructions to the management. That’s more part of the day-to-day work on the board. It’s more about clear lines. Background and competence. Yes.” (IBM)

Why this gap?

When discussing this aspect in the interview, the Chairperson was more concerned with the end result of the evaluation. However, it is evident from the analysis performed that he is very concerned with the processes related to the board’s work, but does not mention this specifically when asked to identify the content of the evaluation. The two other board members align in how they perceive the content of the evaluation.

“Who” Performing the evaluation and the rationale behind this choice

The interviewees do to a large degree align in their perception of who is involved in the process of board evaluation. However, the Chairperson indicates a stronger involvement from the board collectively than the board members themselves:

“We also discuss the method, because I think it’s important that people let themselves go a little. We address it right away, while it is “hot”. At the first board meeting after the evaluation we discuss “how was this?” “How should we do it next time?” And we have constantly found that we should do it differently because we have seen weak points in the way we do it..... But I feel I am responsible for getting it done, but I don’t do it by going into a dark room and in my sole wisdom find out how to do it. It’s always discussed beforehand. That’s a prerequisite for a good board evaluation.” (CP)

While the board members do not indicate any involvement in this decision:

“(This is without doubt the responsibility of the chair. There is somebody who sends out the forms and makes a résumé of them.) Yes, the chair does that; sometimes he uses the board

secretary. At least the chair is responsible for it. I checked the board here. (As being collectively responsible for conducting the evaluation?). Yes, but the practical bit, that is the chair's responsibility." (EEBM)

"There is no doubt who has the responsibility; it's the chair. He initiates the process. He decided which format to use. Shall we use last year's, do we need external help, and shall we do it ourselves? Without doubt, the chair. He has used the board secretary to collate the results of the input. He also conducts the meeting where we go over the summary. In our company it's definitely the chair who is the driving force. No doubt."(IBM)

Why the gap?

There seems to be a misunderstanding between the Chairperson and the board members. The question then becomes, what is "enough" for something to be defined as a discussion? Is the Chairperson actually inviting the board members to discuss these things? Or is he just informing the board? Or is it discussed at all?

Or is the problem that the board members are passive in the sense that things are discussed, but they do not have any input or thoughts about it. Either way, this gap is serious in the sense that the Chairperson views this process as something the board collectively has developed, and thus feels ownership to. Involvement could be associated with board members contributing to board development, team work etc. The fact that the board members do not perceive the process this way might result in the implementation of a method that the Chairperson believes is the best process for this board, while board member do not feel any ownership of it, as they have not contributed towards developing the process.

"How" Modality used in the evaluation

According to the Chairperson, a combination of quantitative and qualitative measures is used. The average and variances are calculated. Based on a pre-decided and discussed threshold value, the score obtained is green or red, where red indicated the issue needs to be discussed:

"Everybody sent in their answers to the board secretary who collated the results into a report. The board secretary writes a report based on the input. The scaled answers result in statistics on what people have answered. Scale 1 – 7. They show the variations and the average. Green is ok, red is not. (Who decides the threshold values?) We discussed where to set these. Then we know and can concentrate on them." (CP)

Both board members agree on the process regarding modality, but do not recognize any involvement in deciding the threshold value:

"(Is everything over 6 or 5.5 good? Or is 5.5 all right? Is this a consistent assessment or does the chair make the assessment then and there?) We have not discussed this very much, so it's the chair who studies this. I think we do agree on this. (But the achievement of a goal, when you say "we achieved our goal this year" what sort of numbers are we talking about?) We have not really anchored that. Or we haven't decided exactly. That's something you could make a note of, that we need something to measure us against. (It's important to have a benchmark about where you are and where you want to be?) It's the chair who decides that." (EEBM).

Lack of involvement is also confirmed through board members' indication that they do not know the reasoning behind using the current method of board evaluation

"I don't know. That's how it was when I came in. And I've taken it for granted that's the way it is. I can't see many taking on the responsibility." (IBM)

"It was that somebody had some experience from other boards, I expect, and they brought that with them..... So I suppose that is why this method was chosen. (EEBM)

Why the gap

As with the gaps related to "who", the gap is related to differences between the Chairperson and the board members. While the Chairperson identifies the board members as very involved in the process, the board members do not identify such a situation.

Follow-up on result

Internal follow-up

There are no gaps identified regarding internal follow-up.

External follow-up

There is a gap regarding how elements related to competence are followed-up. The Chairperson and the IBM identify this to be followed up by the nomination committee, while the EEBM has little knowledge of how competence is followed up.

"We have said that we do not lack any competence. We have different competencies on the board. So it has not been a big issue. It's been more whether we require any international competence or not. It's up to the nomination committee to do something about it." (IBM)

"We don't find competence to be a problem. (What if you had?) Then we would have to do something about it. I would have to go to the nomination committee and discuss with them. You can wish to replace people even without lack of competence. For example being present and being prepared." (CP)

(If it is indicated that higher competence is needed, then what do you do?) No, those are things we haven't discussed enough; it's what I think we should specify more, how do we remove the discrepancy? (EEBM)

Why the gap?

While the IBM uses her experience from previous boards and nomination committees when answering, the EEBM has no such experience, thus the gap.

4.7.3 Preferred model of board evaluation

Board members' preferred model of board evaluation is close to their perceived model of board evaluation when it comes to the purpose of the evaluation, for whom the evaluations are prepared, and the content of the evaluation.

Furthermore, they are satisfied with how the board evaluation process is facilitated and the modality used, but also gives indications that the possibility of using an external facilitator is interesting. The reasoning behind this argument is continuity. Chairpersons come and go..... the possibility of having a framework for board evaluation is perceived of as interesting.

The board members' preferred follow-up is close to the perceived follow-up. However, they indicate that intended follow-up is not always the real follow-up, as the conclusions seem to be forgotten after a couple of meetings and they are thus reverting to their old ways.

4.7.4 Summary

Several gaps between how the board members perceive the evaluation process have been identified. Possible reasons for these gaps have been offered. Below is a summary of these gaps.

Table 4.7.1 Summary of gaps between interviewees perceived model of board evaluation in S6

Element of the process	Gap	Where	Who?	Why?
“Why” Purpose of the evaluation	Yes	The Chairperson identifies the purposes to be evaluation of board processes and board competency which aligns with the perceived purpose except for the IBM who perceives an additional purpose of being evaluating board effectiveness	CP: Board processes and board competence IBM: Board processes, board competency, board effectiveness EEBM: Board processes, board competency	There are no discussions regarding the purpose of the board evaluation at board level.
“For whom” Intended recipients of the result	No	Result communicated to the Board, Nomination Committee and the CEO		
“What” Content of the evaluation	Yes	The chairperson identifies elements related to evaluating actual activities against planned activities (effectiveness). The board members’ perceptions align with the CP regarding evaluation of board effectiveness, but they also include elements related to board processes, board structure and board competence, elements not identified by the Chairperson.	CP: Board effectiveness IBM: Board processes, board competency, board effectiveness EEBM: Board processes, board competency, board effectiveness	The Chairperson discussed the end result of the evaluation, not details regarding content.
“Who” Evaluator	Yes	The Chairperson perceives the development of the evaluation is a joint effort of the board and him. This deviates from how the board members perceive it. The board secretary is involved in practical issues related to conducting the board evaluation.	CP: The Chairperson and the Board collectively IBM: The Chairperson EEBM: The Chairperson	What the Chairperson perceives as involvement and discussion, the board member define as being informed.
“How” Modality	No	Quantitative and qualitative Evaluation of all board members Individual evaluation of the Board collectively		
“How” Clear secondary goals	Yes	According to the Chairperson, goals and goal attainment are discussed and decided upon by the collective board, while the IBM and the EEBM find that no clear goal attainment has been set.	CP: Clear goals and goal attainment decided by the board collectively IBM: Goal attainment decided by the Chairperson EEBM: Goal attainment decided by the Chairperson	The Chairperson appears to express a normative situation, not the current situation.
“How” Discussions of the result	No	The result is discussed for up to three hours, as a part of the board meeting (end)		
When	No	Evaluation once a year as indicated by the codes		
Follow-up Internal	No	No specific follow-up		
Follow-up external	Yes	While the Chairperson and the IBM identify competency as something which is followed up externally, the EEBM does not identify such external follow-up	CP: Competency IBM: Competency EEBM: Nothing specified	The EEBM has no knowledge about this

Table 4.7.1 summarises the identified gaps between the interviewees’ perceived models of board evaluation. These gaps will be discussed further at an aggregated level in section 4.11 to 4.13, suggesting reasons why they exist. The findings in section 4.11-4.13 will be put forward to chapter five with the intent of discussing possible measures to close these gaps through the development of a model for board evaluation in listed companies in Norway.

From the analysis, a table summarising the gaps between the interviewees' perceived and preferred models of board evaluation can be presented. In the situation where there is a gap between the interviewees' perceived and preferred models, this is indicated in **bold**.

Table 4.7.2 Gaps between interviewees perceived and preferred model of board evaluation in S6

Element of the process	Gap	Where	Chairperson	Independent Board member	Employee-elected Board member
"Why" Purpose of the evaluation	No				
"For whom" Intended recipients of the result	No				
"What" Content of the evaluation	No				
"Who" Evaluator	Yes	The Chairperson perceives the development of the evaluation is a joint effort of the board and him. This deviates from how the board members perceive it. The board secretary is involved in practical issues related to conducting the board evaluation.	Preferred model aligns with own perceived model, but not with IBM and EEBM's preferred model	Would like to try an external evaluator	Would like to try an external evaluator
"How" Modality	Yes	Quantitative and qualitative Evaluation of all board members Individual evaluation of the Board collectively	Preferred model align with own perceived model	Preferred model align with own perceived model	Would like to see more individual evaluation, but uncertain about if it would honest
"How" Clear secondary goals	Yes	According to the Chairperson, goals and goal attainment are discussed and decided upon by the collective board, while the perceived model finds that no clear goal attainment have been set.	Preferred model aligns with own perceived model, but not with IBM's perceived or preferred model, and not with EEBM's preferred model.	Preferred model aligns with own perceived model, but not with CP's perceived or preferred model, and not with EEBM's preferred model.	Would prefer to have a clearer perception of what goal attainment is.
"How" Discussions of the result	No				
When	Yes	Evaluation once a year as indicated by the codes	Preferred model aligns with own and EEBM's preferred and perceived models, but not with IBM's preferred model	Would prefer to have the discussions in the February meeting, not in December, because the December meeting is very busy	Preferred model aligns with own and CP's preferred and perceived model, but not with IBM's preferred model
Follow-up Internal	Yes	No specific follow-up	Preferred model aligns with own and EEBM's preferred and perceived models, but not with IBM's preferred model	Would prefer that a follow-up plan was produced as things decided upon during discussions appear to be forgotten after a while	Preferred model aligns with own and CP's preferred and perceived model, but not with IBM's preferred model
Follow-up external	No				

As can be seen from the table, some gaps between interviewees' perceived and preferred models of board evaluation have been identified. These gaps will be transferred to chapter five and analyses at an aggregated level will be performed. Further, a preferred model of board evaluation based on input from interviewees will be identified and used as input for developing a model of board evaluation in large listed companies in Norway.

Based on the interviewees and analysis of the evaluation form used in the process, the following perceived actual model has been identified in S6:

Table 4.7.3 Perceived actual model of board evaluation in S6

Element of the process	Board evaluation	Board member involvement and influence
Evaluation form	Formal and written	Give response to the evaluation form sent out
Purpose of evaluation "Why"	Evaluation of board processes and board competence	Not involved in deciding purpose
Communication "For whom"	Result communicated to the board, Nomination Committee and the CEO	Not involved in deciding recipients
Content of evaluation "What"	25 questions Board's role: 3 (12 %) Board processes: 9 (36 %) Competence: 2 (8 %) Chairperson: 3 (12 %) Board's evaluation: 8 (32 %)	Not involved in deciding content.
Evaluator "Who"	The Chairperson	Not involved in deciding
Modality "How"	Quantitative and qualitative evaluation of all board members Individual evaluation of the board collectively	Not involved in deciding
Clear Secondary Goals	The Chairperson decides on goal attainment for the quantitative part. No clear goal attainment set for the qualitative part of the evaluation	Not involved in or informed about what goal attainment is.
Discussions of the result	The result is discussed for up to three hours, as a part of the board meeting (end)	Discussions related to the elements presented.
When timing of the evaluation	Evaluation once a year as indicated by the codes	Not involved
Follow-up internally	No specific follow-up	Not involved
Follow-up externally	Follow-up of competence	Not involved

Analysis of the perceived actual model of board evaluation will be performed at an aggregated level in chapter five. It will be used as input to identify the approaches adopted by Norwegian listed companies regarding board evaluation and the factors influencing these approaches, in addition to being used to identify a model for board evaluation in listed companies in Norway.

4.8 Company S7

4.8.1 About the company

Taken out for anonymity purpose

4.8.2 Gap analysis of interviewees' perceived models of board evaluation

Based on the analysis performed, several gaps between how the interviewees perceive the model of board evaluation were identified. These are identified and discussed below in terms of possible reasons why they exist.

"Why" Purpose of the evaluation

The Chairperson indicates benchmarking and input to the nomination process as the main purposes of the board evaluation when asked to identify which statement best described the purpose of the evaluation:

Statement 1:

"The main objective is to ensure that the goals set by the board are achieved"

"There are two statements, and the first is the most important. And if we have reached our main goals, and the main objectives in this context are not really the main objectives for the work on the board, but it's whether board and management and organization have achieved the goals we have set for the period. And then you evaluate the board's contribution in that context. The second statement in my opinion is to use the evaluation to provide the nomination committee with input to obtain a correct competency profile." (CP)

And the EEBM is also clear about the main purpose:

"(This means that you think the first statement is the main objective?) Yes, that is the main objective. We have a strategic plan, you know, for a 2 or 3-year period, depending on where we stand, and so it is in order to check whether we are on track. (EEBM)

While the IBM perceives the purpose to be both benchmarking and evaluation of board processes:

"What I think is an important objective, and that is uncovering things concerning the board's work that some of the board members are irritated by whether it's other board members or somebody dominating, that some are not participating, or that the Chairperson is not running the board meetings well. All those things inherent in the board's internal workings and internal communication, as well as the relationship with the CEO. That's what I have considered the main objective.... (The internal processes that take place during a meeting) Yes. ...And the next point is whether the goals the board set up have been achieved." (IBM)

As there are no elements in the evaluation form that can be used to measure board effectiveness as defined in this research, it is here assumed that the interviewees define benchmarking as board effectiveness. This is perceived as a purpose by the Chairperson, not the other interviewees. This is also "confirmed" by the statement given by the Chairperson

Why this gap?

It is not clear to what degree there is a gap between the Chairperson and the IBM. All interviewees agree that benchmarking is the main purpose of the board evaluation. To be able to benchmark, different aspects of board work are touched upon by the evaluation form used, including an evaluation of board processes. However, one reason for the gap between the Chairperson and the IBM is the Chairperson's perception of the end purpose. He expresses that benchmarking represents the goal and that the evaluation of the work performed by the board is assessed against this goal, including the board's processes. On the other hand, as the result is given as input in the Nomination process, the gap between the Chairperson and the board members exists because the board does not discuss the purpose. The purpose of benchmarking appears to be given by the fact that the board uses an external consultant.

For whom – Intended recipients of the result

The Chairperson perceives the board itself and the nomination committee as recipients:

“Point number 1 for me is that board evaluation is the property of the board, in a way. The nomination committee wants to see it, and there has never been any dispute over whether the nomination committee should receive a copy.” (CP)

The EEBM is certain that the board itself is the only recipient:

It's just the board members. (...no one else has access to it?)..... We have agreed that this is a board case, the chair probably uses the board evaluation to give some feedback to the owner and the nomination committee and so on, but not in detail, it's more about the composition.it is something that no one else has access to. “(EEBM)

While the IBM perceives the recipients to be the board and the CEO:

“I have always thought that it is the board itself and the CEO. (Not the nomination or elections committee?)..No.” (IBM)

Why this gap?

It is evident that the board does not discuss who will get the result of the board evaluation, although the EEBM indicates that the result (or some elements of the result) will be communicated to others.

To the extent the perceptions of the Chairperson and the EEBM align, they appear to be based on assumptions from the EEBM. The fact that this is not discussed at board level is further evidenced by the IBM as she expresses, “I have always thought.....”

“What” Content of the board evaluation

The extensive evaluation form consists of 113 questions/statements that the board members are supposed to give their replies to from a scale of 1-5

When asked to indicate to what extent the board evaluation contained specific elements identified in the aid memoire, their answers varied substantially in terms of content and to what degree the different elements were emphasized as identified below:

Statement 1:

“The board evaluation looked at the board activities during the year and the results of these activities were measured against what the board had planned.”

“The first one regarding board activities relative to the plan, that’s important. And we evaluate that. (CP)

“(But anyway, it’s the first one that you believe is very important?) Oh yes, absolutely. (EEBM)

Statement 2:

“The board evaluation focused on benchmarking the board’s structure and work against national laws and codes.”

“Number 2: In the board evaluation, will the composition of the board and its activities be reviewed according to current legislation and recommendations? Yes, definitely.(CP)

“(Statement 2?); No, we don’t spend much time on that one.” (EEBM)

Statement 3:

“The board evaluation looked at the board culture/processes to establish to what degree the processes contribute to value creation”. (Does the board work as a team that ensures cohesiveness/creativity/openness and generosity/critical and questioning attitude/preparation, participation and commitment?)

“I am not quite sure whether we do it in the board evaluations, but you could say that we are trying to do it independently of them. Not after every board meeting, but on an average after every other meeting we take a quarter of an hour – thirty minutes and discuss how this really went.” (CP)

“We spend a lot of time on that in the board evaluation. And it’s very important as well.”(EEBM)

Statement 4:

The evaluation looked at the structure of the board to establish if it supports the work of the board. (This may include evaluation of sub-committees and their work/the size of the board/board meeting structure/CEO and board instructions/ leadership style of chairperson)

“When we have 120 questions, then everything is there, so I do recognize them all, we evaluate everything that’s in here”. (CP)

“We spend a lot of time on that. We review the composition; we also review whether we collectively have the necessary competence, both formal competences, financial competence, experience competence and so on. We are very honest here. We also focus on the way we work, meaning the relationship between the board and the corporate management or the CEO who is present at all the board meetings unless there is something special”. (EEBM)

Statement 5:

“Evaluation looked at to what extent the board members (their professional background, their competencies/ personal characteristics) align with strategy of the company. “

“(Last point: Evaluation looked at to what extent the board members’ background and competence align with strategy of the company?) It is evaluated. That is sort of it.” (CP)

“(Statement 5?) It’s done. “(EEBM)

The IBM perceives point 2, 3 and 4 to be well covered, but not point 1 and 5:

“.....point one is poorly covered. But the next 3 I think are reasonably well covered. The last one, well I don’t think that one is covered very well.” (IBM)

Why the gap?

These gaps between how the board members perceive the content are not surprising, taking into account how many questions the evaluation consists of. However, more surprising is the fact that the interviewees, to some extent, express content that deviates from what they previously have expressed as a perceived purpose. And they do not reflect on this issue when interviewed. One possible reason for this is the fact, as explained previously, that benchmarking is the main purpose. Within this identified framework representing the goal of the board’s work, there are elements in the board evaluation that enable such benchmarking to be performed.

Another reason can be that there **is** no link between content and purpose, as the purpose is benchmarking. The board members define benchmarking as board effectiveness.

Benchmarking will provide some information as to whether the board, based its own assessment, performs better or worse than other boards.

The “problem” with benchmarking is the external focus, at the expense of company- specific issues. Based on the analysis of the evaluation form, most questions are normative in the sense that they expresses tasks the board should be involved in and not do not assess actual task performance against expected performance.

Another reason can be related to the number of questions. As there are 113 questions/statements, any link between perceived purpose and content may be difficult to identify. As the IBM expresses it:

“.....you have so terribly many questions, and that makes for a rather unfocused evaluation..... Some end in 2, others end in 5, but all the same when you sometimes feel that some things should be discussed more thoroughly, then it’s gone. And there are comment fields as far as I remember, but when there are so many questions, then involvement and interest in making comments kind of dwindle” (IBM)

“Who” Performing the evaluation and “How” – Modality used:

There is no gap between the interviewees regarding who has the responsibility for the evaluation process and how it is performed.

However, the board members do not know the rationale behind choosing the evaluator, or the modality:

"I don't know why they chose this one. They had used it earlier and were fairly pleased with it last time." (IBM)

"It was the Chairperson who introduced a model that he had tested in other boards, and that he thought worked well. Since we didn't have any experience from other models, there was no big discussion" (EEBM)

Why this gap?

As mentioned earlier, the reasons for this gap might be that these elements are not discussed. As expressed previously, the EEBM appears to leave the responsibility for this process to the Chairperson, and does not question his judgment. The IBM expressed more satisfaction with this compared to earlier experiences regarding board evaluation in other companies and he seems to accept the choices based on this reasoning.

Follow-up on result

Internal follow-up

There are no gaps between the interviewees when it comes to needed follow-up resulting from discussion of the evaluation result.

The focus is to improve points where there is a significant variance between answers from board members or areas where the board scores less than the board(s) they are using as benchmarked values.

As the board evaluation is the framework for what is being followed-up, then this general view may run the risk of leaving out important specific issues that are relevant for this company

External follow-up

While the independent and the EEBMs did not identify any external follow-up, the Chairperson indicated that such external follow-up exists, although it is uncertain to what degree any follow-up is based on the board evaluation conducted:

"(Is this ever followed up in regards to the nomination committee?) No, well we .. I think the nomination committee. I meet with the nomination committee once a year, perhaps twice. They ask about the evaluation and they read the report with the lowest scores and so on. But it's not fair to say that they really follow up. They register that S7 is doing very well and that the board evaluates itself highly. And they ask about composition of the board and how things are really going. They are interested in the chairperson's evaluation of the individual board members and they get that, of course." (CP)

Why the gap?

The board members are not involved in, or informed about the external follow-up. This is confirmed by the gap identified previously regarding knowledge of who the result is communicated to.

4.8.3 Preferred model of board evaluation

The board members seem rather satisfied with the model of the board evaluation as they perceive it, but the IBM with experience from other boards and board evaluations questions some of the elements in the process. Not criticizing the process, rather suggesting things that can make it even better.

Both the Chairperson and the IBM indicate they would prefer a slightly different format for the board evaluation. The Chairperson expresses concern about the fact that the evaluation shows results that may not reflect what he assumes the reality to be:

“I think the board of S7 is unrealistically pleased with itself.” (Chairperson)

The IBM thinks there are elements missing in the evaluation that would fit better to her perceived purpose:

“I find that some questions regarding more practical internal board processes were missing.” (IBM)

The bottom line is that by handing over the responsibility for the evaluation to the external consultant, and not involving the board members, the purpose of the evaluation seems to become externally focused, which again will reduce the value if it is used as a mechanism for board development reviewing internal board processes involving cooperation with management, etc. It becomes too generalized for this use.

Related to the EEBM, it is a question of leaving things up to the Chairperson. Whether this is because he perceives the Chairperson as very experienced and that he might not understand the process or does not wish to be an active part in the process is not easy to say.

Related to the independent member, the reason for being supportive about the process seems to be related to the fact that the person defines the evaluation process in this company as being better than her previous experience. Moreover, she is a new board member, and does not want to “rock the boat” unnecessarily. She wants to be seen as a team-player:

“If the Chairperson had asked whether we should use the external consultants again, I would have had some doubts. In the discussion I would say that maybe it’s a good idea to try another method this time. But if we ended up with these external consultants, I would just say yes, that it’s correct to use them. Let’s just see if we get a supplementary discussion” (IBM)

Given the circumstances, the preferred model deviates from her perceived model; she is careful to express that her suggestions will make the process even better:

“Are there any additional questions we should ask? Or perhaps we should encourage each other to actively use the comments fields?” (IBM)

4.8.4 Summary

Several gaps between how the board members perceive the evaluation process have been identified. Possible reasons for these gaps have been offered. Below is a summary of these gaps.

Table 4.8.1 Summary of gaps between interviewees' perceived model of board evaluation in S7

Element of the process	Gap	Where	Who?	Why?
"Why" Purpose of the evaluation	Yes	The Chairperson indicates the main purpose to be measuring board effectiveness, and to provide nomination committee with input, while the IBM perceives assessment of board effectiveness and board processes to be the purposes. The EEMB perceives assessment of board effectiveness to be the sole purpose	CP: Benchmarking and to give input to the nomination committee IBM: Board processes, and benchmarking EEBM: Benchmarking	Although agreement about the purpose of benchmarking, there are different perceptions regarding what benchmarking represent
"For whom" Intended recipients of the result	Yes	The Chairperson indicates recipients to be the board, and the nomination Committee. While the IBM perceives the board and the CEO to be the recipients of the result, the EEBM perceives the board as the only recipient.	CP: The Board, and the nomination committee IBM: The Board and the CEO EEBM: The board	Intended recipients are not discussed at board level.
"What" Content of the evaluation	No	All interviewees identify elements related to measuring board effectiveness, comparing the board's work and structure against laws and codes, evaluating board processes, the board's working structure, and board competence.		
"Who" Evaluator	No	An external consultant is in charge of the whole evaluation process, from developing the evaluation, conducting the evaluation, collating, analyzing and presenting the result.		
"How" Modality	No	Quantitative Individual evaluation of the board collectively		
"How" Clear secondary goals	Yes	The Chairperson indicates that there are no identified clear measures of goal attainment. The EEBM finds the goals to be clear. The external evaluator's benchmark score is the goal. The IBM perceives the goal to be related to improvement, like a better score than last year.	CP: No clear goals set. IBM: Better score than last year. EEMB: The bench mark score is the goal	Indication that there is lack of knowledge and information about what the different scores used in the evaluation represent, and what is defined as goal attainment.
"How" Discussions of the result	No	The actual model indicates the board evaluation is presented by the external consultant at one board meeting. The result and how to remedy is discussed at next board meeting for about an hour.		
When	No	Evaluation in January		
Follow-up Internal	No	Follow-up of the evaluation is related to improving elements with a low score.		
Follow-up external	No	Follow-up of the evaluation is that the report is given the Nomination Committee		

Table 4.8.1 summarises the identified gaps between the interviewees' perceived model of board evaluation. These gaps will be discussed further at an aggregated level in section 4.11 to 4.13, suggesting reasons why they exist. The findings in section 4.11-4.13 will be put forward to chapter five with the intent of discussing possible measures to close these gaps through the development of a model for board evaluation in listed companies in Norway.

From the analysis, a table summarising the gaps between the interviewees' perceived and preferred models of board evaluation can be presented. In situations where there is a gap between the interviewees' perceived and preferred models, this is indicated in **bold**.

Table 4.8.2 Summary of gaps between interviewees perceived and preferred model of board evaluation in S7

Element of the process	Gap	Where	Chairperson	Independent Board member	Employee-elected Board member
"Why" Purpose of the evaluation	No				
"For whom" Intended recipients of the result	No				
"What" Content of the evaluation	Yes	The CP and the EEBM identify elements related to measuring board effectiveness, comparing board's work and structure against laws and codes, evaluating board processes, board's working structure, and board competence. The IBM perceives the content to be related to comparing board's work against laws and codes, assessing board processes, and board structure.	Would like the content to be more tailor-made, but are afraid to lose the possibility of benchmarking	Fewer questions to get a more focused evaluation. Stronger influence on the content	Preferred model align with own perceived model, but not the preferred model according to CP and IBM
"Who" Evaluator	Yes	An external consultant is in charge of the whole evaluation process, from developing the evaluation, conducting the evaluation, collating, analyzing and presenting the result.	Preferred model aligns with own and EEBM perceived and preferred model, but not with IBM's preferred model	Would like to try another evaluator.	Preferred model aligns with own and CP's perceived and preferred model, but not with IBM's preferred model
"How" Modality	Yes	Quantitative Individual evaluation of the board collectively	Would like to have more focus on individual board members. Evaluations should not be self-assessments.	Would like to have a method which does not focus on benchmarking but on learning	Preferred model identical to perceived model but not with CP and IBM preferred model
"How" Clear secondary goals	Yes	The Chairperson indicates that there are no identified clear measures of goal attainment. The EEBM finds the goals to be clear. The external evaluator's benchmark score is the goal. The IBM perceives the goal to be related to improvement, like a better score than last year.	Preferred model aligns with own perceived model, but not with IBM's preferred and EEBM's perceived model	Would prefer clear goals related to internal issues.	Preferred model aligns with own perceived model, but not with CP's preferred and perceived model, and not with IBM's preferred model
"How" Discussions of the result	No				
When	No				
Follow-up Internal	Yes	Follow-up of the evaluation is related to improving elements with a low score.	Would like follow-up to be more general, and not so tied up in the evaluation result as every board can be better.	Preferred model aligns with own and EEBM's perceived and preferred model, but not with CP's preferred model	Preferred model aligns with own and IBM's perceived and preferred model, but not with CP's preferred model
Follow-up external	No				

As can be seen from the table, some gaps between interviewees' perceived and preferred models of board evaluation have been identified. These gaps will be transferred to chapter five and analysis at an aggregated level will be performed. Further, a preferred model of board evaluation at an aggregated level will be identified and used as input for developing a model of board evaluation in listed companies in Norway.

Based on interviews and analysis of the board evaluation form used, a perceived actual model of board evaluation has been identified at company level, see table 4.8.3 below.

Table 4.8.3 Perceived actual model of board evaluation in S7

Element of the process	Board evaluation	Board member involvement and influence
Evaluation form	Formal and written	Response given in a survey
Purpose of evaluation "Why"	Benchmarking of the board and input to the Nomination Committee	Not involved in deciding purpose
Communication "For whom"	Evaluation report communicated to the board, and the Nomination Committee	Not involved in deciding recipients
Content of evaluation "What"	113 questions Compliance to laws and codes: 8 (7 %) Board's role: 32 (28%) Board processes: 18 (16%) Board competence: 5 (4%) Chairperson: 8 (7%) Board's evaluation: 42 (37 %)	Not involved in deciding content.
Evaluator "Who"	The external consultant	Not involved in deciding on the evaluator
Modality "How"	Quantitative Individual evaluation of the board collectively	Not involved in deciding modality
Clear secondary Goals	No clear secondary goals set. The goal decided by the scores against which the board is benchmarked	Not involved in deciding what goal attainment is
Discussions of the result	Result presented by external consultant. The board gets the whole report. Possible ways to improve low scores are discussed at the following board meeting without the evaluator present.	Discussions related to the elements presented.
Timing of the evaluation "When"	Evaluation once a year as indicated by the codes	Not involved in deciding the timing
Follow-up internally	Follow-up plan related to the elements with low scores	Involved in deciding on what is the best follow-up
Follow-up externally	Some uncertainty regarding to what extent the external follow-up is based on the evaluation result	Board members not involved

Analysis of the perceived actual model of board evaluation will be performed at an aggregated level in chapter five. It will be used as input to identify the approaches adopted by Norwegian listed companies regarding board evaluation and the factors influencing these approaches, in addition to being used to identify a model for board evaluation in listed companies in Norway.

4.9 Company S8

4.9.1 About the company

Taken out for anonymity purpose

4.9.2 Gap analysis of interviewees' perceived models of board evaluation

Based on the analysis performed, several gaps between how the interviewees perceive the model of board evaluation were identified. These are identified and discussed below in terms of possible reasons why they exist.

“Why” Purpose of the evaluation

According to the Chairperson of the remuneration committee, there seems to be a bit of uncertainty about the main purpose. He starts off by broadly saying the board evaluation is about identifying whether the board is fulfilling its duties by performing expected tasks, and as such implies that the evaluation result is measured against something. This is in addition to supplying the Nomination Committee with information:

“You have to find out whether you are doing your job, whether the board is functioning. Whether the board is fulfilling its duties in a good fashion. And of course, to provide the nomination committee with background material.” (CRC).

Subsequently, after some discussion, the purpose changes to being about the board processes. Two sides of the same thing possibly, but the difference here is that the actual results of the processes are not measured against something:

“(So you would like to add yet an objective, evaluation of board processes?) Yes, I think for me that is a main objective because a board is a group of people who are elected on individual basis and have a clear individual responsibility. To which extent do the board's processes function in a satisfactory way, so that the board performs well and has efficient relations to the management and the CEO. I suppose that is why you want to have such an evaluation.” (CRC)

When asked to indicate the purpose, the IBM started by saying the purpose was related to assessing board effectiveness to ensure openness regarding the board's work:

“I'll say yes to the first point, and yes to the second (showing openness). I get the impression that is important”. (IBM)

However, when discussing things more closely, she indicated that the important thing is evaluating the board's processes:

“(When I say you evaluate the processes in the board's work, is that correct?)

Yes. That you feel free to say what you mean and don't need to interpret other people's thoughts. Showing openness to external stakeholders is not part of the evaluation. We do it to ensure good board processes”. (IBM)

Though she didn't identify the purpose as being clearly linked to the Nomination Committee, she also identified its significance in the evaluation process:

What is important in S8 is that the nomination committee plays a central part..... They do a very thorough job" (IBM)

Why this gap?

The gap here is related to uncertainty regarding purpose. It seems difficult for the interviewees to identify purpose, probably because they have not discussed the purpose of the evaluation. Or it may be that there are multiple purposes of the board evaluation, and thus the interviewees find it difficult to identify **one** purpose. When presented with different possible purposes, the interviewees want to "pin" the purpose to the statements given, and thus the search for the "correct" answer, the normative answer. This proves they are on "top" of things. This fact is indicated by the gap between the two models where the actual model implies that the purpose is not discussed, while the perceived model, when asked about it, indicates that such a discussion is undertaken:

"Yes, it is." (IBM).

When doing this she wants to stress that most things are decided collectively. However, at the same time she indicates that this codetermination is not necessarily used. It's only if they disagree that they air their views:

"It has functioned well, not many protests. I am on many boards, so I know the frames of reference. I think it has functioned well. I am sure we can influence it. If we tell the board we want another, then we will get one." (IBM)

"For whom" Intended recipients of the result

While the CRC indicates that the board is the main recipient -- but also includes the Nomination Committee and the CEO as recipients -- the IBM indicates uncertainty regarding who gets the results. The reasoning behind this uncertainty is explained by lack of knowledge because the system was in place before she became a member of the board. When asked whether the board discussed who should get the results of the evaluation, she confirmed that no such discussions were taking place:

"We haven't done it. Most people think it's just the board and the nomination committee. That is not an established fact, since they interview us. It hasn't been predicted clearly." (IBM)

Why the gap?

It's obvious that the evaluation process is not discussed at board level. The fact that the Nomination Committee performs its own evaluation through interviews with each board member is a factor that adds to the IBM's uncertainty regarding this. Another element adding to this gap is the lack of a proactive attitude, possibly because there is a lack of knowledge regarding board evaluations, or the fact that it might be convenient to let others take the responsibility.

“What” Content of the evaluation

The IBM indicates that the content is about evaluating the structure of the board and to what degree it supports the work of the board. (statement 4 in question 31.1 aid memoire):

“I ticked off dash 4 about composition and organizing of board activities when I went through the questions.” (IBM)

The CRC, however, indicates that the board evaluation contains elements related to board processes, board structure and board competency:

“I think point 3 covers it, that’s what I mostly mean. (None of the others?) Well the second to last one: competence and composition is one of the elements. And you can say the third to last has a relevant question, there are issues that are brought up in relevant questions, so it’s all three” (CRC)”

Why the gap?

The CRC has extensive experience both as a board member, Chairperson, and in performing board evaluations. In this context, his knowledge and understanding of the evaluation process is more profound than the IBM. He is also, as opposed to the IBM, involved in different parts of the evaluation process. The IBM may be defined as experienced in terms of previous directorships, but not in terms of board evaluations. Her previous experience appears to be from boards less professional than this board, and thus she seems satisfied with the system. Her lack of knowledge might also prevent her from having a pro-active attitude towards the process.

“Who” Performing the evaluation

There is a gap between the two interviewees regarding who they perceive to be responsible for developing the evaluation.

Whereas the CRC identifies the development of the questions as a joint project between the Remuneration Committee and representatives from the administration, the IBM indicates that the questions are developed by an external agency and the board secretary (also external):

In S8, the remuneration committee members prepare it together with the administration. (CRC)

“There is some professional or other who has made the survey. I don’t know which agency. It’s an external one.” In S8 we have an active board secretary and a compliance officer. He has probably worked on this evaluation as well. (IBM).

Why the gap?

The system of evaluation was in place before the IBM became a member and appears to have been institutionalized by the board. The fact that the system was developed when the board was listed on the New York exchange and is a result of US legislation appears to have a

profound effect on the perceived quality of and trust in the system. The result may well be that board members accept this as a code of practice, not questioned at all.

The rest of the evaluation process is more observable, as it is clear who sends out the evaluation form by email and who the person presenting the result is. No gaps have thus been identified.

“How” Modality used in the evaluation

There is a gap between the two interviewees regarding how responses are indicated and the definition of secondary goal attainment.

Whereas the CRC identifies a score between 1 and 5 or 1 and 7 as the way responses are measured, the IBM indicates a score between 1 and 10:

“(In both companies you use the same scale, 1-6?) It’s 1-5 in one place, but 1-7 the other.” (CRC)

“We use a scale 1-10.” (IBM)

The fact is however, that the evaluation form used asks the respondents to give feedback based on a scale from 1. “Needs improvement”....to 6. “Exceeds expectations”. In between these to answers the evaluation form indicates that 2 is average, while 4 is satisfactory. Scores 3 and 5 are not identified regarding level of performance.

Why this gap?

Although this change in scale is identified by the IBM to be related to the evaluation form used when assessing the work of the Audit Committee, it is fair to assume that this change also applies to the evaluation used when assessing the board collectively:

I see that the audit committee has changed the scales a bit. Instead of a scale of 1 to 10, we now have: “Needs improvement”, “satisfactory” or “exceeds expectations”. And then there are comments. (IBM)

The gap between the CRC and the IBM can be related to the fact that the evaluation form used recently changed as indicated by the IBM, and the CRC is probably just indicating that a quantitative approach is used, without specifically remembering the exact scale.

The gap identified regarding what constitutes clear secondary goal attainment may be the result of these aspects not being discussed at board level.

The gap between the CRC and the IBM regarding how much time is used discussing the result of the evaluation may possibly exist because the CRC wants to show responsibility and thoroughness for the evaluation process. However, given that the result is discussed as a part of a board meeting, it might be that the CRC is overstating the time spent on discussing. It seems more realistic that the board spends 1 hour as indicated by the IBM than 2-3 hours as indicated by the CRC:

“It’s as part of a board meeting on both companies, but usually very late on one day or very early in the day so we can focus on it.” (CRC)

“One hour. In the autumn..” (IBM)

The fact that the board has a very international composition -- with related possible difficulties of meeting physically -- might also add to our understanding of how much time is realistically used.

Follow-up on result

Internal follow-up

Both interviewees indicate that general courses on boards' work which the board members attend in their own country are a direct follow-up of the board evaluation. They also indicate that internal courses are given annually in order for the board members to increase their level of competency. The question is, of course, to what degree these activities may be defined as follow-up. This might at one time have been a result of an evaluation, but as of now it appears to be something that is organized irrespective of the evaluation result.

According to the IBM, follow-up is also related to practical issues related to the board's work.

One example of follow-up is that they have started to record in the minutes how much time they spend on each case during the board meeting for possible litigation purposes.

The follow-up appears to be related to conformance with American regulations and not necessarily related to developing the board as a group:

“Yes, we felt that we were lacking in technical competence. What are we lacking, do we have enough competence in the committees, and have we spent time on the right things..... Be accurate when writing the minutes that we show how much time we spend on each issue. American style, you see. In case of a legal wrangle. “Oh, you only spent ten minutes on that case!” It's not covered by the board accountability insurance. It's quite extreme. “ (IBM)

External follow-up

Another gap is related to the follow-up towards the Nomination Committee. According to the CRC, competence is followed-up by giving the Nomination Committee information they can use in their nomination process:

“A way of following up is to inform the nomination committee about any needs for changes and modification, for strengthening.” (CRC)

The IBM does not indicate any such external follow-up, which is consistent with the views expressed previously:

“The most important thing to find out is: Are we working in the right way? Do we feel we are dealing with the right tasks? And are we open and honest with each other in the discussions? That is how I think.” (IBM)

Why the gap?

The board members are not involved in the external follow-up, and although some board members have general knowledge about such follow-ups, they have no knowledge about what is communicated to the Nomination Committee. The Chairperson does not communicate the elements of this procedure to the board.

4.9.3 Preferred model

There is one gap between the perceived and the preferred model that is obvious in this case, and that is related to the IBM's realization of the fact that she has little knowledge about the process and that she has accepted things without knowing what she has accepted:

"I'm on my third year here and the principles we follow were well established then. So that when you ask, "Why do you do it this way?" that's something I haven't questioned." (IBM).

This appears to be indicating that she would prefer the process to be different in that respect. However, she indicates that she is very content with the process in this company, as it is more professional than in other companies from her experience.

4.9.4 Summary of the findings

Several gaps between how the board members perceive the evaluation process have been identified. Possible reasons for these gaps have been offered. Below is a summary of these gaps.

Table 4.9.1 Summary of gaps between interviewees perceived model of board evaluation in S8

Element of the process	Gap	Where	Who?	Why?
"Why" Purpose of the evaluation	Yes	The purpose according to the CRC is to evaluate board processes, and to give the nomination committee background material. The IBM is very uncertain about the perceived purpose, and identifies evaluation of board's actual tasks against set goals, in addition to evaluation of board processes.	CRC: Board processes and giving Nomination Committee information IBM: Board processes	Purpose has not been decided, or at least not discussed.
"For whom" Intended recipients of the result	Yes	The CRC identifies the board, the nomination Committee and the CEO as recipients, while the IBM perceives the board to be the only recipient	CRC: The Board, the Nomination Committee and the CEO IBM: The Board	System in place before the board member became a Director, and has not been up for discussion.
"What" Content of the evaluation	Yes	The content according to the CRC is related to board processes, board structure, and evaluation of board competence. The IBM identifies evaluation of board structure as the element of the board evaluation.	CRC: Board processes and elements related to possible board recruitment IBM: Board structure	The evaluation process has not been discussed. Board members have little knowledge about the actual process in place.
"Who" Evaluator	Yes	The CRC identifies the remuneration committee and the administration (possibly compliance officer) as the developer of the evaluation, while the IBM identifies an external agency to be the developer of the board evaluation	CRC: The remuneration committee together with the administration IBM: External agency develops the board evaluation	IBM's only involvement in the evaluation process is responding to the evaluation form
"How" Modality	No	The company uses a quantitative approach, and respondents are to individually evaluate the board collectively		
"How" Clear secondary goals	Yes	The CRC indicates that it is not possible to generalize regarding what is secondary goal attainment, while the IBM indicates that a score above 5 represents goal attainment	CRC: No clear level set for goal attainment IBM : Score of 5 and above represent goal attainment	The IBM's perception might be identical to what is being discussed at board level regarding the result.
"How" Discussions of the result	Yes	There is a gap between the actual and perceived model regarding the length of the discussions of the evaluation result	CRC: Discussed for 2-3 hours IBM: Discussed for 1 hours	
When	No	Evaluation performed once a year		
Follow-up Internal	No	Both interviewees identify practical issues related to board meeting in addition to general courses board members attend to be part of the follow-up.		
Follow-up external	Yes	While the CRC indicates that elements related to competency are followed-up externally, the IBM does not identify such follow-up	CRC: Competence IBM: No knowledge	Board members are not informed about external follow-up

As can be seen from table 4.9.1, there are several gaps between interviewees' perceived models of board evaluation. These gaps will be discussed further at an aggregated level in section 4.11 to 4.13, suggesting reasons why they exist. The findings in section 4.11 to 4.13 will be put forward to chapter five with the intent of discussing possible measures to close these gaps through the development of a model for board evaluation in listed companies in Norway.

From the analysis, a model can be recognized that identifies the gaps between the interviewees' perceived and preferred models of board evaluation. In situations where there is a gap between the interviewees' perceived and preferred models, this is indicated

Table 4.9.2 Summary of gaps between interviewees perceived and preferred model of board evaluation in S8

Element of the process	Gap	Where	Chairperson	Independent Board member
"Why" Purpose of the evaluation	No			
"For whom" Intended recipients of the result	Yes	The CRC identifies the board, the nomination Committee and the CEO as recipients, while the perceived model perceives the board to be the only recipient	Preferred model is identical to own perceived model but not with IBM's perceived and preferred models	Would like more information about who receives the evaluation
"What" Content of the evaluation	No			
"Who" Evaluator	Yes	The CRC identifies the remuneration committee and the administration (possibly compliance officer) as the developer of the evaluation, while the IBM identifies an external agency to be the developer of the board evaluation	Is always considering alternative evaluator, but not with the purpose of improving	Preferred model identical to own perceived model, but not with CRC's perceived and preferred model
"How" Modality	No			
"How" Clear secondary goals	No			
"How" Discussions of the result	No			
When	No			
Follow-up Internal	No			
Follow-up external	No			

As can be seen from the table, some gaps between interviewees' perceived and preferred models of board evaluations have been identified. These gaps will be transferred to chapter five and analysis at an aggregated level will be performed. Further, a preferred model of board evaluation based on input from interviewees will be identified and used as input for developing a model of board evaluation in listed companies in Norway.

Based on analysis of interviewees and the evaluation form used in S8, the following model of board evaluation has been identified.

Table 4.9.3 Perceived actual model of board evaluation in S8

Element of the process	Board evaluation	Board member involvement and influence
Evaluation form	Formal and written	Give response to the evaluation form sent out
Purpose of evaluation "Why"	Evaluation of board processes and Board competence	Not involved in deciding purpose
Communication "For whom"	Result communicated to the board, Nomination Committee and the CEO	Not involved in deciding recipients
Content of evaluation "What"	42 questions Board's role: 11 (26 %) Board processes: 13 (31 %) Board competency: 7 (17 %) Reporting against law and code: 4 (10 %) Chairperson: 0 (0%) Board's evaluation: 7 (17 %)	Not involved in deciding content.
Evaluator "Who"	The Chair of the Remuneration Committee and administration	Not involved in deciding
Modality "How"	Quantitative Individual evaluation of the board collectively	Not involved in deciding
Clear Secondary Goals	No clear secondary goal attainment decided	Not involved in or informed about what any goal attainment is.
Discussions of the result	The result is discussed for about an hour, as a part of the board meeting	Discussions related to the elements presented.
When timing of the evaluation	Evaluation once a year as indicated by the codes	Not involved in deciding
Follow-up internally	Follow-up on practical matters regarding board work	Not involved in follow-up
Follow-up externally	Follow-up on competence by the Nomination Committee	Not involved

The perceived actual model of board evaluation will be analysed at an aggregated level in chapter five. It will be used as input to identify the approaches adopted by Norwegian listed companies regarding board evaluation and the factors influencing these approaches, in addition to being used to identify a model for board evaluation in listed companies in Norway.

4.10 Company S9

4.10.1 About the company

Taken out for anonymity purpose

4.10.2 Gap analysis of interviewees' perceived models of board evaluation

Based on the analysis performed, several gaps between how the interviewees perceive the model of board evaluation were identified. These are identified and discussed below in terms of possible reasons why they exist.

"Why" Purpose of the evaluation

The Chairperson indicated that board evaluation is performed for the purpose of development, without identifying specific measures against which performance could be evaluated:

"I would say it more generally that it's quite simply a chance to evaluate and improve our efforts." (CP)

He also indicates that giving the Nomination Committee input through the evaluation is an important purpose:

"And the second objective is to provide the nomination or election committee with some information – an evaluation survey with results." (CP)

The board members are more specific regarding what they perceive as the purpose. The owner representative and the EEBM both perceive the purpose to be to evaluate the board processes:

"(So your main objective is the processes?) yes, how can you improve the processes. Get the board to function better. That's what it's all about, I think." (EEBM)

"The purpose of the evaluation is to work better together as a board. Bond the board into a team. Try to rectify things if necessary – things like the form of meetings, if something is lacking in the meetings or the way we work. In short, making sure we work better as a team. (Inner processes?) YES." (OR)

The IBM indicated both evaluation of processes and competence to be the purposes:

"(You have indicated that processes on the board are important?). Does the board function as a team, openness, being prepared, involved, composition of the board, collective competence on the board." (IBM)

Why the gap?

The Chairperson's perception does not offer any clear purpose other than input to the Nomination Committee. Development is a precondition for any evaluation. This indicates that there is no set specific purpose for the evaluation.

This is in contrast to the board members who possibly base their answers on what they perceive as being evaluated.

The other gap is related to the EEBM and the owner elected board member not perceiving the purpose to be about giving the Nomination Committee input to their process. It is a fact that the EEBM is not dependent on the Nomination Committee to remain a board member. This is indicated by the EEBM saying:

“I don’t think about providing the nomination committee with input. Quite irrelevant for the employee representatives. So it doesn’t matter” (EEBM)

“For whom” Intended recipients of the result

All interviewees identify the board and the nomination committee as recipients. The Chairperson also identifies the CEO as a recipient, a recipient not identified by the other interviewees:

“The nomination committee gets it because it is relevant to them. They are the only ones – apart from the board members – that receive it, but I discuss it in general terms with the CEO” (CP)

Although everyone identifies the Nomination Committee as a recipient, there appears to be uncertainty related to how the result is communicated.

The Chairperson identifies the board evaluation result accompanied with a written recommendation from the Chairperson about what the board will focus on in the time to come:

“The board receives the results of the evaluation. And the Nomination Committee. They get these forms and I write a short summary “what we will focus on in the time to come”” (CP)

The IBM and the OR are more uncertain regarding how the result is presented to the nomination committee:

“The nomination committee; well they get it through a conversation with the chair.” (OR)

“It’s the board that receives the written summary. As far as I know elements of it are communicated to the chair of the nomination committee. Whether he hands it over or presents it orally, I don’t know.” (IBM)

Why this gap?

There are no discussions at board level regarding who receives the evaluation result. The result being of course that there are uncertainties related to this process. Although this uncertainty is acknowledged by the IBM, no concerns are expressed regarding this lack of knowledge by the interviewees

“What” Content of the board evaluation

When asked “What (overall) best describes the last board evaluation?”, several gaps between the interviewees were identified.

No interviewees indicated that the board evaluation had elements related to measuring actual performance against planned performance (indicating board effectiveness). This supports the assumption that the independent and the Chairperson expressed a normative view when asked about the purpose of the board evaluation.

The interviewees differed on several elements regarding what they perceived the content to be about:

Statement 2:

“The board evaluation focused on benchmarking the board’s structure and work with regard to national laws and codes.”

“Dash 2; that’s ok. Among other things. (OR)

“As number 2 I have chosen dash 2 (CP)

Statement 3:

“The board evaluation looked at the board’s culture/processes to establish to what degree the processes contribute to value creation. (Does the board work as a team that ensures cohesiveness/creativity/openness and generosity/critical and questioning attitude/preparation, participation and commitment?)”

“Dash 3; Yes (OR)

“Its point 3 I think is important.” (EEBM)

“(its dash 3, 4 and 5 that the board evaluation at S9?) Yes (IBM)

“Dash 3 (value creation), I am concerned with value creation and that the board should be a part of this, so I have put number 1 next to it (CP)

Statement 4:

The evaluation looked at the structure of the board to establish if it supports the work of the board. (This may include evaluation of sub-committees and their work/the size of the board/board meeting structure/CEO and board instructions/ leadership style of chairperson)

“Dash 4;..... Yes, ok. Even though I say “ok”, then I haven’t evaluated the one statement against the other. I say that all these aspects should be included in the survey. I haven’t said that one thing is more important than the other. (OR)

“Point 4 as well. Organisation. Organisation of board sub-committees. Mainly point 3 and a little 4. (EEBM)

“(It’s dash 3, 4 and 5 that the board evaluation at Kongsberg covers?) Yes (IBM)

Statement 5:

Evaluation looked at to what extent the board members (their professional background, their competencies/ personal characteristics) align with strategy of the company.

“(It’s dash 3, 4 and 5 that the board evaluation at Kongsberg covers?) Yes (IBM)

“And as number 3 I have put dash 5 about whether the board members are in line with the company’s strategy.” (CP)

Why this gap?

Generally, for all interviewees to identify and categorize the same content based on some statements given is not easy. However, these deviations in perception are possibly the consequence of the fact that no purpose has been set or discussed.

Also, as indicated earlier, the Chairperson appears to be expressing a normative view when answering some of the questions, i.e. what he thinks is important and should be included in an evaluation.

Also, as the Chairperson controls the whole evaluation process -- from developing the questionnaire to choosing which part of the evaluation should be discussed -- his perception might be different from the board members, as the interviewees base their answers on the evaluation form, while the Chairperson may have responded to the question as related to which elements the board has **discussed**:

“That’s why I think this is evaluation form is useful, but only as a starting point for a discussion within the board.” (CP)

The EEBM is the only person not to identify evaluation of board competency to be included in the evaluation. Both the chairperson and the IBM identified one of the purposes of the evaluation to be related to evaluating competence. The owner representative did not indicate the purpose as related to assessing board competence but included it in the content. This might indicate that the board member does not view this process as a system, in which the different elements need to be linked together, but rather a process where just performing the evaluation is the purpose.

“Who” Performing the evaluation

All interviewees identified the Chairperson as the person who is in charge of the whole evaluation process, from developing the evaluation to deciding what should be discussed at the board meeting regarding the result.

However, there is a gap between the interviewees regarding the rationale behind this choice. According to the Chairperson he took this responsibility as the Chair:

“I think this is a board chair’s job, the chair has no other function in the board apart from leading it, but practically speaking the chair is the link to the administration and has a special responsibility for the organizing, taking the initiative when it comes to organizing things. I know that many use a secretary at their office to sum up these answers in order to save themselves the bother, but I think I should do that task in order to get closer to the material.” (CP)

The board members perceive that the rationale for using the Chairperson as the evaluator is a consequence of the fact that there are no conflicts in the board:

“It’s not difficult in S9, because if one of us felt the need to evaluate the chair we would probably suggest using an independent consultant. It’s as easy as that. (Do you do it?) There hasn’t been a need for it.” (IBM)

“I think it has been customary. I don’t think we have used an external consultant, and I believe the Board in S9 functions so well, have such confidence in each other so we don’t need any help to achieve this.” (OR)

Why this gap?

The gap identified regarding the rationale behind using the Chairperson is related to different approaches towards board evaluation. The Chairperson’s approach is that the board evaluation is a mechanism to make the company better. This appears to be one of the reasons behind his decision to be the evaluator, being the link between the board and the management. Another factor is that the evaluation form contains elements related to how the board evaluates management. Again, being the link between the board and management -- and the fact that these elements are considered very internal to the company -- this choice might be rationalized on those grounds. The board members however appear to perceive the use of an external evaluation to be linked to situations where there is a conflict.

A third reason for this gap might be the fact that an important part of the evaluation process is the evaluation of the CEO, which is performed at the same time. This might indicate that the Chairperson does not separate these two evaluations.

Another interesting aspect of the process of conducting the board evaluation is the fact that although the board members view the Chairperson as developer of the evaluation form, the Chairperson acknowledges only some responsibility for this:

“I used an old questionnaire, kept some of the questions and added things that more relate to the core in the impression of the company.” (CP)

Both the IBM and the EEBM were members of the board when he was elected in 2005, but none of them recognizes the board evaluation form as something that also existed with the previous Chairperson.

Why this gap?

It is obvious that the evaluation form has changed in the sense that some questions have been withdrawn, others added. As the Chairperson expressed:

“But a new chair also sets his mark on the board. It was natural for me to use a questionnaire. I have therefore gradually expanded it and tried to go into things that are not just formalities regarding procedures and so on, such as peoples’ perception of the company, their opinion of how the board’s contribution can help make the company better.” (CP)

If board members’ only involvement is responding to the questions, any changes might make the evaluation appear as “new”.

“How” Modality used in the evaluation

There are no gaps between the interviewees regarding how the board evaluation is performed. They all identify the evaluation as being an individual evaluation of the board collectively, that the evaluation is a quantitative survey, and that they discuss the results between 1 and 2 hours at a board meeting.

One aspect of this process is how the discussions are directed. Although this is not defined as a gap, it is a point worth mentioning, both because it can say something about the process of board evaluation in general, but also because it touches on some points I have identified in other companies as well. The board members do not necessarily view the whole result of the evaluation, just some elements of it picked out by the evaluator. As indicated by the Chairperson and confirmed by the EEBM, what gets discussed at the board meeting is related to the summary that the Chair produced, containing the points he found interesting and the conclusions regarding it:

“I don’t do the assessment, but I summarize and split it up, so to say. But that is a pure secretarial job, really. I do it myself. It does take a few hours but then I get to go through it thoroughly. This is a questionnaire where you also write comments. There are a few comments, and I try to summarize the typical ones, or comments that seem a little special. I summarize at the end of the form. I write a little about how it was, and how the result turned out, generally speaking. Under each main heading I write what I have arrived at. It’s about one page of comments from my side as a summary. (CP)

“(Are all the comments subject to discussion?) No, not necessarily. It’s up to the chair.” (IBM)

“We have only talked about things we need to focus more on next year.” (EEBM)

As to clear secondary goals, the Chairperson perceives goal attainment to be trial and failure as it depends both on the average score and variances:

“(Have you any marginal values for goal achievement)? No, it’s a bit trial and failure. But it’s clear that average scores under 4 are not very good. Then you can take it from there. Scores around 5 and 6 are unproblematic. But we can also have some significant variations. Usually, we don’t, but we see that it’s usual to give 6-4 on some of the questions, the same with 5-4 with normal variations. Some places it’s a bit more.” (CP)

The IBM however finds that it is changes from year to year that are important, in addition to average scores:

“It’s important to measure this from year to year to find if there are any changes. When I personally think something is very good, I give it a 5 or a 6. Many people don’t use 6. Some think 4 is quite good. Many people think 5 is an absolute pass. That’s what I have found. In my opinion, if you go under 4, it’s not good enough.” (IBM)

The OR perceives the scores to be irrelevant, as the question is always about how the board can improve, irrespective of the score:

“(So making a conclusion based on where we should be at goal attainment: we can’t do that?) I would say that you get an indication as to where you need to improve. That’s what you get, but as it isn’t an objective value, then you can’t say that because we got 4.2 and we should have 4.7 and then we’ll be pleased. You get an indication of where we can improve.” (OR)

And the EEBM finds the scores to be less than useful:

“It’s hard to get anything out of these numbers. 6 and 1 are rarely used. Then there is an average of 3-4, but it’s when you make your comments that it becomes something useful.” (EEBM)

Why this gap?

Based on the analysis, it appears that what is perceived as goal attainment is not discussed at board level. However, there appears to be a perceived level of which score is acceptable, possibly based on what scores are discussed at the meeting where the result is presented.

“When” Timing of the evaluation

No gaps are identified

“Follow-up” on result

Internal and external follow-up

There are no gaps identified regarding how the interviewees perceive any follow-up. Possible follow-up is left to the Chairperson and not the board collectively, whether the needed follow-up is solved internally or it is solved externally by discussing the situation with the Nomination Committee.

The board members confirm the fact that the follow-up is being done by the Chairperson:

“You ask about following up. The chair does the following up by arranging, quieting down, retrieving or perhaps a conversation in private with whichever board members this applies to. (IBM)

“It’s up to the chair who sets the agenda for the board meetings. Primarily to put important issues on the agenda or to review in a discussion the way we work.” (OR)

This follow-procedure is indicated by the board members as being the preferred follow-up. A reason for this might be that follow-up is perceived as something that is done externally, like a change in the composition of the board, and such changes have not been seen as necessary:

Yes, I think so. It is taken seriously. The need for following up depends on the need for change. (OR)

Or that follow-up on a collective basis is not necessary, as this is the individual directors’ responsibility:

"It's up to each single member to follow up any deviances. It's not just up to the chair. We must all take responsibility to make this work. The responsibility does not rest with just one person." (EEBM)

There is no follow-up plan being produced.

An interesting aspect is the fact that the board members appear content with the follow-up being up to the Chairperson, and not being involved -- not even having knowledge about what the follow-up consisted of. You just make a note on possible changes as indicated by the IBM:

"It's not easy for others to know exactly what to do; you have no right to it. It's more that you make a note of any adjustments." (IBM)

Why this content with the follow-up procedure?

The possible follow-up is closely related to Chairperson's conclusions. These conclusions may not seem as if they are the "property" of the board; the board does not feel responsible for them, and, as such, current follow-up procedures make sense to the board members. Why it makes sense is another question. Is it because board members are unwilling to take responsibility for the process, seeing this as the Chairperson's responsibility?

Or, is the board so content with the processes within the board that they see no possibility for internal development? Or is it possible that any changes must mean a change in the composition of the board, a change that is initiated by the Chairperson, or externally?

Another possible solution is related to the fact that it appears to be the comments made by the board members that are the elements discussed at board level. These are comments that by nature are about individual conduct, and thus an individual follow-up might be the correct procedure:

"The need for following up depends on the need for change. Sometimes you can provide feedback. A feedback that has been sent to the Board in S9 and I am one of the ones who made a statement that the level of activity varies greatly among the members." (IBM).

This might indicate that elements related to the board collectively are being commented, but not acted upon, other than identifying changes from one year to another.

4.10.3 Preferred Model

The board members, overall, appear very satisfied with the current system of board evaluation. However, both the Chairperson and the IBM gave some indication that the perceived purpose did not necessarily align with their preferred purpose:

*"Point 1.1 states the various objectives, but I don't think any of them suit me, and 3.1 is more descriptive of board evaluation. I have marked what I think it **should** contain and what I think is important" (IBM)*

The Chairperson's preferred purpose of board evaluation seems to be measuring board effectiveness but at the same time seems to indicate that this is not possible to achieve:

"I believe statement 1 that is best but you can say that we don't have quite specific goals for the board's work; we have a work plan and then we have general goals for the company, but the time frame differs depending on when things are to be achieved. (CP)

Board members did have some comments regarding how the evaluation was performed, indicating that their preferred model is different than the perceived model related to specific elements, such as the number of questions, or the use of quantitative measures:

"I don't particularly care for the 1-6 scale where you have to measure. It could perhaps be a yes/no choice and not a maybe. 1-6 is too much maybe. "I have told the Chairperson that I think it is a bit on the long side. I get a bit "tired" of answering it....." (IBM)

"The boards have different problems, needs, challenges and they have to be solved right there and then. This evaluation may well be too detailed. (A lot of questions?) Yes. It's ok to have a lot of questions, but I think you could achieve the same results with fewer questions. You don't get any wiser with lots of questions." (OR)

None of them indicate any discontent related to how the result is presented and discussions conducted, although the data suggests that the discussions performed resemble a presentation where the sub-conclusions have already been made as the Chairperson himself chooses what to present to the board.

The IBM raised some questions regarding how the board evaluation is followed-up. She is a person who has experience from other boards as Chairperson, and has developed and initiated board evaluations in that capacity. Her reflection is that there seems to be too much focus on competence in the sense that identified lack of competence is always collected from the outside instead of acknowledging that competence can both be developed and be collected:

"(You say that in S9 competence gaps are followed up externally by for example replacing board members?) To a point, yes. There are several things to consider. You don't solve a competence problem simply by adding a new board member because it's the collective board that needs to understand the basic elements in a company." (IBM)

4.10.4 Summary

Several gaps between how the board members perceive the evaluation process have been identified. Possible reasons for these gaps have been offered. Below is a summary of these gaps.

Table 4.10.1 Summary of gaps between interviewees perceived model of board evaluation in S9

Element of the process	Gap	Where	Who?	Why?
“Why” Purpose of the evaluation	Yes	The overall purpose according to the Chairperson is to develop, without indication as to what this means, and to give the nomination committee input. The board members deviate in their perceptions when indicating the purpose.	CP: Board development and to provide input to the nomination committee IBM: Board processes and provide input to the nomination Committee OR: Board processes EEBM: Board processes	A clear purpose has not been discussed or decided at board level.
“For whom” Intended recipients of the result	Yes	The Chairperson identifies the board as a recipient of the summary of the result, and the nomination committee as a recipient of CP summary of discussions, and some points regarding what the board will focus on next year. In addition the CEO gets an oral summary on a need-to-know basis. The board members identify the board and the Nomination Committee as recipients, but are uncertain regarding how the result is communicated to the Nomination Committee	CP: Board; Written summary. NC; written summary and points to focus next year. The CEO; an oral summary on a need-to-know basis. IBM: The board; written summary, the nomination committee; get information, but uncertain about how. OR: The board; written summary. The Nomination committee; oral through a conversation with the Chair, the CEO through a conversation with the Chair EEBM: The board written summary, The Nomination Committee; nothing indicated regarding how the information is given.	The process is not discussed with the board. Thus the board members lack knowledge about the process.
“What” Content of the evaluation	Yes	The Chairperson identifies elements related to evaluating board processes, evaluation of board work and composition in relation to laws and codes, and elements related to board competence. The board members deviate in their perception of the content	CP: Board processes, board competence, and evaluation of board’s work against laws and codes. IBM: Board processes, board structure, and board competence OR: Evaluation of board’s work and composition against laws and codes, board processes, board structure and board competence EEBM: Board processes and board structure	The Chairperson appears to express a normative view regarding the content of the board evaluation.
“Who” Evaluator	No	The Chairperson is the person responsible for all the different elements of the evaluation. From developing to presenting.		
“How” Modality	No	The company uses a quantitative approach, and respondents are to individually evaluate the board collectively		
“How” Clear secondary goals	Yes	The Chairperson indicates that it is not possible to generalize regarding what is goal attainment. This aligns with the perceptions of the board members, but they all give different reasons	CP: No clear goals – its trial and failure IBM: Scores are subjective. For me 5 or 6 is OK OR: It’s all about the tendencies of this year score compared to earlier scores. EEBM: No clear goals. It’s the comments that are useful	Goal attainment is a subjective measure which the Chairperson decides. The board members base their perceptions on what is discussed
“How” Discussions of the result	Yes	While the Chairperson and the IBM align in their perception regarding how long the result is discussed, the OR and EEBM indicate that less time is used.	CP: Discussed for 2 hours IBM: Discussed for 2 hours OR: Discussed for 1 – 1,5 hours EEBM: Discussed for 1 hour	
When	No	Evaluation performed once a year		
Follow-up Internal	No	Follow-up is identified by the Chairperson, and is viewed his responsibility		
Follow-up external	No	Follow-up is identified by the Chairperson, and is viewed his responsibility		

Table 4.10.1 summarises the identified gaps between the interviewees’ perceived model of board evaluation. These gaps will be discussed further at an aggregated level in section 4.11 to 4.13, suggesting reasons why they exist. The findings in section 4.11-4.13 will be put forward to chapter five with the intent of discussing possible measures to close these gaps through the development of a model for board evaluation in listed companies in Norway.

From the analysis, a model can be identified identifying the gaps between the interviewees' perceived and preferred models of board evaluation. In situations where there is a gap between the interviewees' perceived and preferred models, this is indicated in **bold**:

Table 4.10.2 Summary of gaps between interviewees' perceived and preferred models of board evaluation S9

Element of the process	Gap	Where	Chairperson	Independent Board member	OR	EEBM
"Why" Purpose of the evaluation	Yes	The purpose of the board evaluation according to the interviewees deviates.	Would prefer for the purpose to be more tightly connected with the company's goal	Preferred model aligns with own perceived model, but not with CP's preferred or OR and EEBM's perceived model	Preferred model aligns with own and EEBM's preferred and perceived model, but not with CP's preferred or IBM's perceived model	Preferred model align with own and IBM's preferred and perceived model, but not with CP's preferred or IBM's perceived model
"For whom" Intended recipients of the result	No					
"What" Content of the evaluation	Yes	The Chairperson identifies elements related to evaluating board processes, evaluation of board work and composition in relation to laws and codes, and elements related to board competence. The board members deviate in their perception of the content	Would like to simplify the evaluation form	Would like the questionnaire to shorter, more focused, and more open questions	Would like shorter evaluation	Preferred model align with own perceived model, but not with CP, IBM and OR preferred model
"Who" Evaluator	No					
"How" Modality	Yes	The company uses a quantitative approach, and respondents are to individually evaluate the board collectively	Preferred model aligns with own perceived model, but deviates with board members preferred model	The administration should be more involved in the evaluation as they can give valuable input to the board. Should also discuss frequently if one should do it another way.	Would prefer to a different quantitative measure like knowing how many answered 3, how many answered 5 etc. Do not need to know the average	Would prefer more yes/no questions, or a more qualitative approach
"How" Clear secondary goals	Yes	The CP indicates that it is not possible to generalize regarding what is goal attainment. This aligns with the perceptions of the board members, but they give different reasons.	Preferred model aligns with own perceived model, but not with IBM and OR's perceived and preferred model or EEBM's preferred model	Preferred model aligns with own perceived model, but not with CP or OR's perceived and preferred model and not with EEBM preferred model	Preferred model aligns with own perceived model, but not with CP or IBM's perceived and preferred models and not with EEBM's preferred model	Would prefer more yes/no questions, or a more qualitative approach
"How" Discussions of the result	No					
When	Yes	Evaluation performed once a year	Preferred model aligns with own perceived model, and with OR and EEMB's perceived and preferred models, but not with IBM's preferred model	Would in addition prefer mini-evaluations at the end of each board meeting	Preferred model aligns with own perceived model, and with CP and EEMB's perceived and preferred models, but not with IBM's preferred model	Preferred model align with own perceived model, and with CP and OR's perceived and preferred model, but not with IBM's preferred model
Follow-up Internal	No					
Follow-up external	Yes	Necessary follow-up is identified by the Chairperson, and is viewed as his responsibility	Preferred model aligns with own perceived model, and with OR and EEMB's perceived and preferred model, but not with IBM's preferred model	Would like competency gaps to be followed-up internally	Preferred model aligns with own perceived model, and with CP and EEMB's perceived and preferred models, but not with IBM's preferred model	Preferred model align with own perceived model, and with CP and OR's perceived and preferred model, but not with IBM's preferred model

As can be seen from the table, some gaps between interviewees' perceived and preferred models of board evaluation have been identified. These gaps will be transferred to chapter five and analyses at an aggregated level will be performed. Further, a preferred model of board evaluation based on input from interviewees will be identified and used as input for developing a model of board evaluation in listed companies in Norway.

Based on interviews and analysis of the board evaluation form used, a perceived actual model of board evaluation has been identified at company level, see table 4.10.3 below.

Table 4.10.3 Perceived actual model of board evaluation in S9

Elements of the process	Board evaluation	Board member involvement and influence
Evaluation form	Formal and written	Give response to the evaluation form sent out
Purpose of evaluation "Why"	Evaluation of board processes and board competence	Not involved in deciding purpose
Communication "For whom"	Result communicated to the board, Nomination Committee and the CEO	Not involved in deciding recipients
Content of evaluation "What"	Content of board evaluation 54 questions Board's role: 8 (15 %) Board processes: 16 (30 %) Input from management: 2 (4 %) Board competency: 6 (11 %) Preparation and contribution: 3 (5 %) Board's evaluation: 19 (35 %)	Not involved in deciding content.
Evaluator "Who"	The Chairperson	Not involved in deciding
Modality "How"	Quantitative Evaluation of all board members Individual evaluation of the board collectively	Not involved in deciding
Clear Secondary Goals	No clear goal attainment decided	Not involved in or informed about what any goal attainment is.
Discussions of the result	The result is discussed for 1-2 hours, as a part of the board meeting	Discussions related to the elements presented.
Timing of the evaluation "When"	Evaluation once a year as indicated by the codes	Not involved
Follow-up internally	Any follow-up is the responsibility of the Chairperson	Not involved
Follow-up externally		

Analysis of the perceived actual models of board evaluation will be analysed at an aggregated level in chapter five. It will be used as input to identify the approaches adopted by Norwegian listed companies regarding board evaluation and the factors influencing these approaches, in addition to being used to identify a model for board evaluation in listed companies in Norway.

4.11 Summary of analysis performed on individual companies and introduction to aggregated analysis

In section 4.1 to 4.10 analysis of individual companies has been performed. In each company, between two and four board members were interviewed about the current process of board evaluation in the company they represented in this research. In addition, they were asked to identify to what extent the current evaluation process aligned with what they preferred based on their own subjective views. By interviewing several board members in each company, differences in perceptions between the interviewees regarding the evaluation process were identified, enabling gap analysis to be performed between the interviewees' perceived models of board evaluation and to introduce possible reasons why these gaps exist. Further analyses were performed to identify to what extent a preferred model of board evaluation could be developed. Through the analysis of interviewees' perceived models of board evaluation and the evaluation form used in the board evaluation process, a perceived actual model of board evaluation per company was identified.

Analysis shows that there are many gaps between individual board members' perceived models of board evaluation and that the gaps identified at individual company level are similar across companies. The findings at individual company level will subsequently be analyzed at an aggregated level as identified in the table 4.10.1 below, with the intention of conducting analyses that apply to all sampled companies and thus make it possible to generalize from the findings.

Table 4.11.1 Overview of level of analysis

Analysis section 4.2 – 4.11	Company									
	Input	S1	S2	S3	S4	S5	S6	S7	S8	S9
	Chairperson	X	X	X	X		X	X	X	X
	Independent board member	X	X	X	XX	X	X	X	X	X
	Employee-elected board member	X	X	X	X	X	X		X	X
	Owner representative						X			
	Evaluation Form	X	X	X		X	X	X	X	X
Analysis section 4.12, 4.13 and Chapter 5										

As can be seen from the table, analysis at an aggregated level can be performed at two different levels. It enables analysis across companies at individual board member level and aggregated analysis at company level. The analysis across companies for individual board members is performed in section 4.12. Aggregated gap analyses regarding interviewees' perceived models of board evaluation are performed in section 4.13.

4.12 Gap Analysis across companies – individual board members

4.12.1 Introduction

In this section, gap analyses across company at individual level that are related to the interviewees' perceived model of board evaluation are performed. The result is illustrated in tables 4.12.1 and 4.12.2 below.

Table 4.12.1 identifies the gaps between EEBM's perceived model and the perceived model of the Chairperson or the alternative person in charge of the board evaluation.

Table 4.12.2 identifies the same for the IBM's.

“Yes” means that there are gaps between the perceived model of the individual board member and the perceived model of the Chairperson or the person responsible for the evaluation.

Table 4.12.1 Gaps between the EEBM’s and the Chairperson’s perceived models of board evaluation

Company Element	S1(1)	S2	S3	S4 (1)	S5	S6	S7	S8 (2)	S9
Purpose (Why)	No	Yes	Yes	No	Yes	No	Yes	–	Yes
Communication (For whom)	Yes	Yes	Yes	Yes	Yes	No	Yes	–	Yes
Content (What)	No	Yes	Yes	Yes	Yes	No	No	–	Yes
Evaluator (Who)	Yes	Yes	Yes	Yes	No	Yes	No	–	No
Modality (How)	Yes	Yes	No	No	No	No	No	–	No
Clear secondary goals	No	Yes	No	No	No	Yes	Yes	–	Yes
Discussions	Yes	Yes	Yes	Yes	No	No	No	–	Yes
When	Yes	No	No	No	No	No	No	–	No
Follow-up internally	No	Yes	Yes	No	Yes	No	No	–	No
Follow-up externally	No	Yes	Yes	Yes	No	Yes	No	–	No

(1) The current Chairperson has not been involved in any board evaluation. The gap identified is thus between the EEBM and IBM as the deputy Chairperson.

(2)Not required by law to have employee-elected board member

Table 4.12.2 Gaps between the IBM's and Chairperson's perceived models of board evaluation

Company Element	S1 (1)	S2	S3	S4 (2)	S4 (2)	S5 (3)	S6	S7	S8	S9
Purpose (Why)	No(1)	No	Yes	No	Yes	No(1)	Yes	Yes	Yes	No
Communication (For whom)	No(1)	Yes	Yes	Yes	Yes	No(1)	No	Yes	Yes	Yes
Content (What)	No	No	Yes	Yes	Yes	No(1)	Yes	No	Yes	Yes
Evaluator (Who)	No(1)	Yes	Yes	Yes	Yes	No(1)	Yes	No	Yes	No
Modality (How)	No(1)	No	No	No	No	No(1)	No	No	No	No
Clear goals	No(1)	Yes	No	Yes	Yes	No(1)	Yes	Yes	Yes	Yes
Discussions	No(1)	Yes	Yes	Yes	No	No(1)	No	No	Yes	No
When	No(1)	No	No	No	No	No(1)	No	No	No	No
Follow-up internally	No(1)	Yes	No	Yes	Yes	No(1)	No	No	No	No
Follow-up externally	No(1)	No	Yes	Yes	Yes	No(1)	No	No	Yes	No
See comment in Table 4.12.1										
In this company both the IBM and the OR were interviewed										
See comment (1) in table 4.12.1										

As can be seen from the tables, the gaps identified in section 4.2 to 4.10 (analyzing the individual cases) appear to be identical when analyzing the data across companies. By developing separate tables for the EEMB and IBM, it is possible to analyze to what extent there are differences between the different categories of board members across companies. When comparing the two tables it is clear that there are no major differences between the two categories of board members. The gaps identified appear similar regardless of the category that the interviewees can be identified with. This suggests that the gaps identified can be analyzed for the group “board members” as a whole (both the board members identified as IBM, and board members identified as EEBM).

Reasons for the gaps

Gap analysis at this level might enable identification of the reasons behind these gaps at an individual level. The fact that these gaps exist may be related to several elements, such as:

lack of communication within the board,

lack of knowledge about rules and regulations related to board work,

lack of knowledge about board member responsibilities,

lack of understanding of the process of board evaluations,

lack of interest or time

lack of acknowledgement from Chairperson etc.

Knowledge about the reasons for these gaps might give a better understanding of why these gaps exist at an individual board member level and suggestions as to how to close the gaps at this level could be proposed. However, further investigation regarding these individual gaps is not performed within the framework of this research, as anonymity has been granted the participants. Going back to investigate these gaps will be a breach of confidence in that sense. To what degree the board members, if they accepted to participate in this research, would be objective in such research is also questionable.

Further investigations regarding identified issues at an individual board member level must be conducted in another setting and this is proposed as future research.

The identified gaps regarding the perceived model of board evaluation are, however, discussed at an aggregated level in section 4.13 below. In this context, the gaps identified at the individual board member level will be used at a more general level as input to the analysis performed at company level.

4.13 Aggregated Gap Analysis – Company level

4.13.1 Introduction

In this section, the different elements of the analysis performed at company level regarding the identified perceived models of board evaluation will be consolidated on a more general level in search for similar gaps across all companies. Moreover, suggested reasons for these gaps are introduced.

4.13.2 Gap analysis of interviewees' perceived models of board evaluation across companies

Table 4.13.1 is the basis for discussion regarding how interviewees perceive the model of board evaluation.

Table 4.13.1 Summary of gaps interviewees' perceived model of board evaluation across companies

Company	S1	S2	S3	S4	S5	S6	S7	S8	S9
Element Of process									
"Why" Purpose of evaluation		CP IBM	EEBM	CP IBM EEBM	CP IBM1 IBM2 EEBM	IBM EEBM	CP IBM EEBM	CP IBM EEBM	CP IBM CP (CRC)
"Why" Purpose discussed?	IBM EEBM	CP IBM EEBM	CP IBM EEBM	CP IBM EEBM		CP EEBM		CP IBM CP (CRC)	
"For whom" Intended recipients of the result	IBM EEBM	CP IBM EEBM	CP IBM EEBM	CP IBM EEBM	IBM EEBM		CP IBM EEBM	CP IBM CP (CRC)	CP IBM CP (CRC)
"For whom" Discussion of Intended recipients?	IBM EEBM	CP IBM EEBM	CP IBM EEBM	CP IBM EEBM	IBM EEBM			CP IBM CP (CRC)	
"What" Content of board evaluation		CP IBM	EEBM	CP IBM EEBM	CP IBM1 IBM2 EEBM	IBM EEBM	CP IBM EEBM	CP EEBM IBM	CP IBM CP (CRC)
"Who" Evaluator	IBM EEBM	CP IBM EEBM	CP IBM EEBM	CP IBM EEBM	CP IBM1 IBM2 EEBM		CP IBM EEBM	CP IBM CP (CRC)	
"Who" Rationale behind chosen evaluator known?	IBM EEBM	CP IBM EEBM	CP IBM EEBM	CP IBM EEBM	CP EEBM IBM2		CP IBM EEBM	CP IBM CP (CRC)	CP IBM CP (CRC)
"How" Modality used in the evaluation	IBM EEBM	CP IBM	EEBM						
"How" Clear secondary goal indicators given		CP IBM EEBM	CP IBM EEBM	CP IBM EEBM	CP EEBM IBM1 IBM2		CP IBM EEBM	CP IBM CP (CRC)	CP IBM CP (CRC)
"How" Rationale for the chosen modality known?	IBM EEBM	CP IBM EEBM	CP IBM EEBM	CP IBM EEBM	CP IBM1 EEBM		CP IBM EEBM	CP IBM CP (CRC)	IBM CP (CRC)
"How" Discussion of the result	IBM EEBM	CP IBM EEBM	CP IBM EEBM	CP IBM EEBM	CP IBM2 EEBM			CP IBM CP (CRC)	IBM
"When" Timing of the evaluation	IBM EEBM								
Follow-up (internal)		CP IBM EEBM	CP IBM EEBM	CP IBM EEBM		IBM EEBM			
Follow-up (external)		CP IBM	EEBM	CP IBM EEBM	CP IBM1 IBM2		CP IBM EEBM	CP IBM CP (CRC)	IBM

“Why” Purpose of the evaluation.

General

There are gaps in all but one company regarding the purpose of the board evaluation. As seen from table 4.13.1 there are between two and four different perceptions regarding the purpose. In five of the cases, the purpose indicated by the Chairperson deviates from the rest of the board members.

Why the gaps?

The main reason for these gaps is the fact that no specific purpose has been decided or discussed.

Interviewed Chairpersons appear “reluctant” to indicate a specific purpose. Many indicate “development” or “improvement” as the purpose, without giving any explanation as to which area(s) of the board’s work is to be analysed and evaluated:

“I would say it more generally that it’s quite simply a chance to evaluate and improve our efforts.” (Chairperson)

“I see board evaluations primarily as a tool to improve work on the board(Chairperson)

“You have to find out whether you are doing your job, whether the board is functioning. Whether the board is fulfilling its duties in a good fashion (Chairperson)

The board members, however, are more specific in how they perceive the purpose:

“It was important to follow up/evaluate what we had set up as our objective and whether they were reached. And ...how we worked as a team.” (EEBM)

“The most important objective for me ishow the board functions together as a team. How we work together.”(IBM)

“All those things inherent in the board’s internal workings and internal communication.” (IBM)

“The purpose of the evaluation is to work better together as a board. Bond the board into a team.(OR)

“(So your main objective is the processes?) Yes, how can you improve the processes. Get the board to function better.” (IBM)

Although Chairpersons were “reluctant” to specify an explicit internal purpose for the board evaluation, they all identified input to the Nomination Committee to be a purpose of the evaluation:

“And of course, also to provide the nomination committee with background material.” (CP).

“And the second objective is to provide the nomination or election committee with some information.” (CP)

This gives indications that the Chairperson perceives the main purpose of the evaluation to be external (see table 4.1.1), while the board members' main purpose may be characterised as internal. This is one of the main reasons for the gaps identified.

An interesting point is related to the Chairperson's perceived purpose of the board evaluation being to provide the Nomination Committee with information. As identified through analysis at company level and as will be discussed later, it is quite clear that the board evaluation is not the main source of information provided to the Nomination Committee. The main source of input given to the Nomination Committee is provided by the Chairperson himself, sometimes in cooperation with the CEO. Some Chairpersons indicated that the results of the board evaluation are disregarded entirely when communicating with the Nomination Committee. Others indicated that the results of the board evaluation were used partly when communicating the results with the Nomination Committee. This aspect, together with the fact that Chairpersons do not indicate a very clear purpose other than giving the Nomination Committee input, may indicate that the main purpose of the board evaluation is to conform to the codes.

Another interesting observation is related to the companies using external consultants as facilitators of the process. In these cases, there seems to be a high consensus between the interviewees regarding the purpose. In all these companies, the main purpose appears to be external, with a high focus on benchmarking.

Based on analysis at company level, five out of nine Chairpersons perceive the purpose of board evaluations to be discussed with the board, while all board members except one indicate that such discussions are not undertaken.

As indicated by one EEBM:

"We received the questionnaire by mail, and there was no further communication than that." (EEBM)

The IBMs appear to be a little more subtle in their perceptions regarding discussions of purpose. While indicating discussions are not performed, it appears they regard them as less needed:

"The purpose is not quite as single-minded as you perhaps mean, it is more implicit that we are aiming for the best possible board work. That is our heading. And I'm sure the board members realize this without it being mentioned explicitly." (IBM)

"For Whom" Intended recipients of the result

General

As with the purpose of the board evaluation, there are gaps in all but one company regarding who the interviewees perceive as recipients of the board evaluation.

The Chairperson is responsible for communicating the results of the board evaluation. The Norwegian Code for practice of Corporate Governance does not indicate to whom the results of the evaluation should be communicated to other than the Nomination Committee.

Analyses at company level show that all 9 Chairpersons identify the board and the Nomination Committee as natural recipients of the results. 4 also include the CEO as an additional recipient.

In the companies where gaps have been identified, board members differ in their perception of who receives the result, all of them indicating either something different than the Chairperson or expressing uncertainty regarding who receives them:

“It’s the board itself and no others, as far as I know.” (EEBM)

“We get the results. It probably goes to the board and the management. And I don’t know whether it’s sent to the nomination committee.” (IBM)

“I know that the board members get it, so I suppose the corporate governance committee goes over it.” (EEBM)

Why the gap?

In all the companies where gaps have been identified, analysis shows that no discussions have been conducted at board level regarding who will receive the result of the board evaluation:

“There hasn’t been any discussion. It’s not been a topic and I expect that if somebody thinks it should be brought up, they would do it. It is as simple as that.” (EEBM)

“I have always thought that it is the board itself and the CEO. (Not the Nomination Committee?)..No.” (IBM)

Another element of the gaps identified regarding communication of the result is the lack of knowledge the board members have regarding to what extent the result of the board evaluation is used as input in communication to recipients.

Based on findings in the analysis, and as indicated under “purpose”, it is not common that the Nomination Committee or other identified recipients receive the whole evaluation report as presented to the board. It is more common that the Chairperson informs other recipients orally about the main findings, supplemented with his own views:

“Of course the board receives the evaluation..... As to the nomination committee you can say that the chairperson gets an insight into it, but it is not from that information they make changes to the board. It isn’t. So it is really for the board, and the CEO gets to go through it.” (CP)

“The board evaluation’s main objective is to contribute positively to ... It disciplines and educates, so to speak, so that the people who are chosen will have their say and use their abilities throughout the year. And then comes the meeting with the nomination committee, which I regard as very important. Then we evaluate.. Is this the right board, or should we make some replacements. “ (CP)

“What” Content of the board evaluation

General

As seen from table 4.13.1 there are gaps in all but one company. Gaps identified may be discussed both horizontally as gaps between interviewees, but also vertically to see for each interviewee whether there is a connection between perceived purposes and perceived content of the board evaluation. Table 4.13.1 shows only the gaps horizontally. However, analyses

performed in section 4.2 - 4.10 show that there are also gaps vertically (between content and purpose). Categorising it according to different board members (Chairperson/IBM/EEMB), in five out of nine cases, the identified content deviates from the perceived purpose of the Chairperson. For the IBM, five out of nine indicate content of the evaluation which deviates from their perceived purpose. As to the EEBMs, four out of eight indicate a content that deviates from their perceived purpose. If we analyse the gaps across companies at an aggregated level, we see that board members tend to identify the perceived purpose to be internal and the content to have both internal and external focus. Thus they perceive the content to be more comprehensive than the purpose. Analysis related to the Chairperson gives the same result. Although the Chairperson appears quite specific regarding the purpose of the board evaluation, he indicates the content of the evaluation to be much more comprehensive than one would expect given the purpose indicated.

Why the gaps?

As no clear purpose has been identified, gaps between interviewees' perceived content are not surprising. Their perceived content is influenced by their perceived purpose.

The vertical gaps identified are related to the fact that no specific purpose of the board evaluation has been set. As indicated previously, many interviewees identified the purpose as "board development" without specifying it further. Without a specific purpose identified, a possible link between purpose and content is difficult to identify, if such link exists at all. The fact that there is a gap at individual board member level between the perceived purpose and the perceived content of the evaluation suggests that there is no link; the content of the board evaluation has been decided separately from the purpose. Or the gap might be related to individual board members and their perception of the board evaluation process. As indicated in section 4.12, these are not discussed further in this research, but left to future research. The board evaluations in these companies contain a lot of questions/statements, making these evaluations rather difficult to categorize in terms of content as indicated by these board members:

".....you have so terribly many questions, and that makes for a rather unfocused evaluation" (IBM)

"... I think it is a bit on the long side. I get a bit "tired" of answering it....." (IBM)

"This evaluation may well be too detailed. (A lot of questions?) Yes. It's ok to have a lot of questions, but I think you could achieve the same results with fewer questions. You don't get any wiser with lots of questions." (OR)

The link between purpose and content for the Chairperson appears not to be important. If the purpose is to give the Nomination Committee input, and this input is decided by him, a link between purpose and content is less important.

“Who” Conducting the board evaluation

General

In this category, observations include the process of developing the evaluation, collating, analyzing and presenting the result. Although this category may be defined as more “observable” than some of the other categories, given that board members are more involved in this category, there are still gaps in six out of nine cases. As can be seen from table 4.13.1, the gap within a board is often between the Chairperson on one hand and the board members on the other hand, indicating that board members perceive the situation differently than the Chairperson. As can be seen from the table, board members seem to have little knowledge about the rationale behind choosing the current evaluator.

Why the gaps?

The gaps identified are related to different aspects of the process of developing, collating, analyzing and presenting, but the most significant gap is related to development of the evaluation. While the Chairperson in all six companies where gaps are identified perceives the board or a board sub-committee to be involved in the development of the board evaluation form, such an involvement is not identified by board members.

Board members have little knowledge about who is involved in the process other than identifying who sends out the board evaluation and who presents the results as indicated by the following quotes:

“There is some professional or other who has made the survey. I don’t know which agency. It’s an external one.” In this company we have an active board secretary and a compliance officer. He has probably worked on this evaluation as well. (IBM).

“The CEO’s secretary sent it electronically. (You filled it in and returned it and that’s what you know?) Yes.” (EEBM)

A reason for these gaps is possibly that the process has not been discussed at board level. The Chairperson perceives the board as more involved in the process, and that the questions are something the board develops together as indicated by the following quote:

“I’m sure we took it from another company, or we usually do it by people from different boards bringing what they have and then we mix it all together.” (CP)

“How” – Modality used in the evaluation

General

There are only two gaps identified regarding the modality used in the board evaluations. One gap is related to who is involved in the evaluation. In this case the EEBM perceives the evaluation to be an evaluation by the board itself, while the IBM who has been in charge of the board evaluation defines it as a combination of an evaluation performed by the board itself and an evaluation in which management are allowed to give their views about the board. The other gap is related to a difference in perception regarding whether an individual discussion between

the Chairperson and individual board members is part of the evaluation or should be defined as a follow up. Whereas the EEBM defines it as part of the board evaluation, the Chairperson perceives this as follow-up.

“How” – Clear secondary goals.

General

In seven out of nine companies, there are gaps between the Chairperson’s perception of what constitutes secondary goal attainment and what board members perceive as secondary goal attainment. All companies in the research use quantitative measures in the evaluation. Some companies do, however, use a combination of quantitative and qualitative measures. All gaps are related to quantitative measures.

Why the gaps?

All Chairpersons, where gaps are identified, perceive that generalization regarding secondary goal attainment is not possible. The following quote represents the perception most Chairpersons have regarding this issue:

“No, that’s almost impossible to answer. It’s partly a question to objectify the issue, what is the ideal for a team? The other is the individual emotions and they are always different.” (CP)

Board members have, to a large extent, another perception of what constitutes secondary goal attainment. The following quotes indicated a common perception of the board members and are taken from the interviews with board members of the same board as the above mentioned Chairperson:

“Every score under 3 gets reviewed and discussed in detail..... But 3 or better even if they have gone down from 4 or 5 will not be spent time on. Only scores under 3. (EEBM)

“(What is goal achievement?) 3 and 4 if you are satisfied. 5 are very good.” (IBM)

While the Chairpersons do not want to generalize regarding secondary goal attainment, board members base their perceptions on what is actually being discussed.

“How” Discussion of the result

General

There are gaps in five out of nine cases regarding how much time the board spends discussing the result. In most cases, the Chairperson’s perception is that the board spends more time discussing the result than what the board members perceive to be the case.

Why the gap?

Possible reasons for these gaps can be related to the fact that time used for discussion is perceived as too short, in general, by board members as indicated by the following quotes:

“Let’s be generous and say 20 minutes” “This was right at the end of a board meeting and not everybody had time to stay on” (EEBM)

“I would have liked to dedicate one meeting to it. Have the opportunity to spend some time on it. Once a year is just fine, but it would be nice to spend some time on it.” (EEBM)

Or it may be the fact that there is some dissatisfaction with regard to how much the board members can influence the discussion, as some board members indicate that the results and any consequences are presented and not discussed:

“It is presented to the board within a time limit; I had some critical comments to the presentation. It could have been more thorough. There is always such little time to present these things, you talk very quickly to get the gist of it and then you draw the conclusion that “this looks very good”. (You perhaps get the report?) We don’t receive the report. It is just presented.” (EEBM)

“When” Timing of the evaluation

The only gap identified in this section is a difference between the interviewees in S1, and this relates to how often the board conducts an evaluation. The EEBM perceives the evaluation to be in relation to recruitment of new board members, which has not been every year, while the other interviewee perceives the evaluation as being conducted once a year.

Follow-up on the evaluation result

Internal follow-up

General

Analysis shows that companies, to a very little extent, have implemented any procedure for internal follow-up of the results. This is why gaps have been identified in only three out of nine companies.

To the extent needed follow-up is identified, this issue is dealt with when the results are being discussed, whether this is related to input from management, the length of the board meeting or some other practical issues. No other identified follow-up procedure has been identified.

Why the gap

The gaps identified are mostly related to differences regarding what specific internal actions are taken after the results of the evaluation are available and differences in perceptions regarding what is followed-up internally and externally.

The lack of follow-up procedures related to board evaluations will be discussed further in chapter five.

External follow-up

General

There are gaps in all but three companies regarding perceived external follow-up of board evaluation. While the Chairperson identifies discussions with the Nomination Committee to be

part of a follow-up of the evaluation result, the majority of board members do not identify any external follow-up.

The open-ended questionnaire used did not ask the interviewee to specify internal and external follow-up, but rather asked them to identify the follow-up procedure of the board evaluation. Separation of internal and external follow-up has been done when analyzing the data. In situations where interviewees have not identified specific external follow-up, such procedures are assumed not to exist.

Why the gaps?

The gaps are mostly related to differences in perceptions regarding board members' lack of knowledge about possible external follow-up on board evaluation. In most cases, the Chairperson identifies external follow-up to be related to board composition as indicated through the following quote:

“A way of following up is to inform the nomination committee about any needs for changes and modification, for strengthening.” (CRC)

The majority of board members do not indicate any external follow-up. The ones who do identify external follow-up are the board members with experience from a Nomination Committee.

The question is, however: to what degree is the external follow-up based on the results of the evaluation, and to what degree is it based on additional input from the Chairperson as indicated by the following quotes:

“(Is this ever followed up in regards to the Nomination Committee?) No, well we .. I think the Nomination Committee .. I meet with the Nomination Committee once a year, perhaps twice. They ask about the evaluation and they read the report with the lowest scores and so on. But it's not fair to say that they really follow up. They register that S7 is doing very well and that the board evaluates itself highly. And they ask about composition of the board and how things are really going. They are interested in the Chairperson's evaluation of the individual board members and they get that, of course.” (Chairperson)

“It is clear to the Nomination Committee that it is not the main supplier of conditions. Which it isn't, but we think it is right that the Nomination Committee should see a more detailed ...But you can say that the real evaluation of each board member, it's done by the Nomination Committee and me, with the Nomination Committee.” (CP)

Regardless of to what extent the external follow-up is based on the result of the board evaluation, it is a fact that board members have little knowledge of the process of external follow-up. This observation is based on both the gaps identified in this section, but also the gaps identified earlier regarding who gets the result and how the result is presented.

4.13.3 Summary of the aggregated gap analysis company level

According to the analysis performed in section 4.13 and as illustrated in table 4.13.1, gaps exist in all the identified elements of the board evaluation process. The purpose of the analysis performed in this section has been to identify and discuss the gaps between the interviewees' perceived models of board evaluation and to suggest reasons for their existence. The analyses performed in this section will be transferred to chapter five, and used as input for and presentation of conclusions regarding approaches of boards of Norwegian listed companies regarding board evaluation and elements influencing these approaches.

**Chapter 5 - Analysis of the interviews (2) -
Aggregated analysis of perceived actual and
preferred models of board evaluation and
development of a suggested model**

5.1 Introduction

The overall purpose of this chapter is to suggest a model of board evaluation for Norwegian listed companies. The basis for the model of board evaluation is the field research where the purpose was to identify the approaches adopted by Norwegian listed companies regarding board evaluation and the factors influencing the approaches.

The term model is widely used, but may be difficult to define. Remenyi describes a model in this way:

“A model may be described as a presentation of an artefact, a construction, a system or an event or sequence of events. The representation may be abstract or symbols, equations and numbers, i.e. mathematical expectations; it may consist of a picture or a drawing, or a fabricated likeness such as model aero plane, or it may be an expression of a situation or relationships in words. A complex model may contain several of these representations simultaneously” (Remenyi, et al., 1998:285)cited in (Jonsson, 2007:151)

Different approaches have been used in developing models. Early models were purely theoretical with disregard to reality. Models built in the 1970s, however, tried to imitate reality to the extent that they become too complicated (Jonsson, 2007).

The approach used in this research follows the same tradition as used in much of the existing academic literature of model building. It seeks to be a good representation of reality and easy to use (Jonsson, 2007; Little, 1970). In addition, the approach in this research is the same as in the literature used as a basis for my field research, (Kiel & Nicholson, 2005; Minichilli, et al., 2007a); the model is built as a consequence of an identified problem and seeks to identify a model for improvement.

In this chapter, words are used to describe a model for board evaluations that can be used to improve board effectiveness in boards of listed Norwegian companies. This is done by suggesting elements that will have an impact on the process of board evaluation in terms of how it is performed. In addition, suggestions are made regarding the Code for Practice of Corporate Governance as it is assumed this will influence the process of board evaluation.

In section 5.2, three different models of board evaluation are identified: the perceived actual model of board evaluation, the preferred model of board evaluation and a theoretical model of board evaluation. The first two models are the result of my field research, while the theoretical model is built from the existing literature. In chapter four a perceived actual model per company was identified, based on interviewees' perceived models of board evaluation, and section 5.2 starts by identifying an aggregated perceived actual model of board evaluation based on analysis performed in chapter four. Discussions about the model and elements influencing it are performed (section 5.2.1).

Subsequently, an aggregated preferred model of board evaluation based on analysis performed in chapter four is presented and discussed. Finally, a theoretical model of board evaluation is presented that builds on existing literature on board evaluation. These models will be used as input in building a model of board evaluation in Norwegian listed companies.

In section 5.3, a gap analysis between the models will be performed with the goal of identifying why the gaps exist. Suggestions as to how these identified gaps can be closed are presented in section 5.4 and 5.5 through the development of a model for board evaluation in Norwegian listed companies

5.2 Models of board evaluation

5.2.1 The perceived actual model of board evaluation

As indicated in chapter four, section 4.11, the analyses performed at individual company level enabled me to identify a perceived actual model of board evaluation for each company. By comparing the findings across companies, an aggregated perceived actual model of board evaluation has been developed. The result is presented below in table 5.2.1.

In chapter four, analyses of nine cases were performed based on interviews with up to four different board members in each company. Analyses of the different companies were performed, and a perceived model of board evaluation according to interviewees was identified. Gaps between individual board members were discussed at an aggregated level, offering reasons as to why these gaps existed. Given that boards make decisions about the different elements of the process, it is assumed that board members' approaches influence the board evaluation process implemented, and thus the perceived actual model of board evaluation. The gaps identified in chapter four are thus brought forward to this section and will be used to explain the identified perceived actual model of board evaluation, and are consequently a basis for gap analysis performed in section 5.3.

Discussions regarding this model will be split into three: the process of board evaluation and board members involvement, Chairpersons' approaches to board evaluation, and board members approaches to board evaluation.

Table 5.2.1 Aggregated perceived actual model of board evaluation

Element of the evaluation process	Board evaluation
Format of board evaluation	Formal and written
"Why" Purpose of the evaluation	No clear purpose of the board evaluation other than a general purpose of "development".
"Why" Purpose discussed at board level	Purpose is not discussed or decided on by the board collectively. It is assumed known by the board members
"For Whom" Intended recipients of the evaluation	The board is the main recipient, while the Nomination Committee is presented with the result through the Chairperson. The CEO is presented with the result relevant for management through the Chairperson
"For whom" Intended recipients discussed and decided by the board	The board is not involved with discussing or deciding the recipients of the result. This is decided by the Chairperson
"For whom" How the result is presented to recipients	The board is presented with a summary of the evaluation result, while the Nomination Committee is either given a summary of the result, or a summary with conclusions based on the board's discussions. In addition, the Nomination Committee is presented with the Chairperson's views on how the boards work in his meeting with the Committee.
"What" Content of board evaluation	Contents are divided between elements related to board evaluation and board's evaluation of management. There is no clear connection between content and purpose, i.e. the content appears to have been development with no basis in the purpose.
"Who" Conducting of board evaluation	Most evaluations performed by an internal (mostly the Chairperson). It is less common to use an external consultant.
"How" Modality used in the evaluation	Most evaluations are quantitative surveys. They are performed as individual evaluations of the board collectively. Individual evaluation or peer-review is not performed. The sub-committees of the board are not evaluated.
"How" Clear secondary goals decided – What is goal attainment?	What constitutes clear goal attainment (in terms of scores) is discussed and decided before the evaluation process. This is a subjective decision left to each director to decide when they perform the evaluation
"How" Discussions of the result	The result and possible consequences are discussed at a board meeting lasting between 1-2 hours
"When" Timing of the evaluation	Board evaluations are performed once a year, either at the end of the year, or at the beginning of the year. The timing is set to enable the result to be used by the Nomination Committee in their work.
"Follow-up" On the evaluation result – Internal follow-up	No structured follow-up of the result. Any identified need for follow-up is left to the individual Director to carry out individually.
"Follow-up" On the evaluation result – External follow-up	Possible follow-up is initiated by the Nomination Committee, and is based on the input given to them from the Chairperson

The identified aggregated perceived actual model of board evaluation in Norwegian listed companies is characterized by lack of structure and involvement.

The following bold face points represent the main elements of the aggregated perceived actual model of board evaluation in Norwegian listed companies:

The Chairperson is the person with the overall responsibility for the evaluation process.

Most of the decisions regarding the process are made by him and they are not discussed with the board collectively. However, when the process is delegated to an external (such as a consultant), the Chairperson withdraws from the process and leaves decisions regarding the process to the external evaluator.

No clear purpose of the evaluation has been identified. The interviewees identified general purposes such as “development”, “assessing the teamwork”, “giving input to the Nomination Committee”, “assessing the processes”, “benchmarking” or some other general purpose. In all companies, multiple-purposes were identified. Multiple purposes in this context means that interviewees perceive the board evaluation as serving several different purposes. However, the identified purposes were all very general as identified above. Typically, the perceived purpose according to the Chairperson is to give input to the Nomination Committee for use in possible recruitment in addition to the general purpose of “development of board processes”. Board members identify the purpose of assessment of board processes, including team work, as important.

The Boards do not discuss or agree on any purpose of the board evaluation before the process is initiated.

Decision regarding the **intended recipient of the evaluation result** is made by the Chairperson.

Board members lack knowledge regarding the recipient of the evaluation result, as this is not discussed at board level. Most board members assume the board itself is the main recipient, while the Chairperson identifies the board AND the Nomination Committee to be the main recipients.

The content of the board evaluation is decided on separately from the rest of the process and is not a result of decided purpose. However, most board members perceive the content of the evaluation to be linked to the perceived purpose of the evaluation. The Chairperson, however, appears to relate the purpose as being closely associated with who the recipient is, regardless of the content of the evaluation.

Decisions about **who should perform the evaluation** are mainly made by the Chairperson. To the extent the collective board is involved in designing the process, discussion tends to centre on whether to use an internal or external evaluator.

The general rule is that the board evaluations are performed as individual evaluations of the board collectively. Individual evaluations or other modality, such as peer-reviews, are not performed. Evaluations of sub-committees are generally not performed. In addition, little evaluation of the Chairperson is performed in these board evaluations.

Most companies use a quantitative method of evaluation, but no clear indication of what score indicates secondary goal attainment is given or discussed. This is a subjective matter left to the individual board members to decide.

The form in which the result is presented to recipients other than the board is decided by the Chairperson. If the Chairperson is conducting the evaluation, he also decides on the content of the presentation to the board. However, if the evaluation is performed by an external consultant, the content of the presentation to the board is decided by the external consultant. To what extent the actual result of the board evaluation is used when discussing the board evaluation with the Nomination Committee is decided by the Chairperson.

The result of the board evaluation is discussed at board level for between one and two hours. From the analysis it can be concluded that the Chairperson indicates that discussions are lengthier than what is indicated by the board members

Board evaluations are performed once a year. Evaluations are part of the board agenda, and the board views this as a separate task the board performs and not as part of their continuous work. The timing of the evaluation process is chosen to fit the work of the Nomination Committee.

Analysis shows that there is no structured or formalized internal follow-up of the result of the board evaluation. Most follow-up is dealt with when the result of the evaluation is discussed and is related to management's input to the board or to practical elements regarding the structure of the meeting, timing, length etc.

Any follow-up is done externally through the Nomination Committee, based on the input given by the Chairperson.

Board members are not involved in the process of board evaluation other than responding to the questions. This means that, in general terms, board members have little knowledge about the reasoning and rationale behind the choices made regarding the evaluation process.

The board members appear to accept the current board evaluation process as is. This is to say that the implemented process of board evaluation aligns to a large extent with their preferred process of board evaluation. The most common view expressed by the board members is that the process was already in place when they become board members, and they have not questioned the process on that basis. Another view expressed is that the current process is an improvement compared to what they have experienced in other boards, and they are consequently satisfied with the evaluation process implemented.

5.2.1.2 Approaches influencing the perceived actual model of board evaluation

Given that the implemented process of board evaluation is decided by the board, the approaches of the Chairperson and board members influence the identified perceived actual model of board evaluation. Below, some approaches identified through analysis at individual company level are discussed. Quotes are used to support the identified approaches and suggestions are put forward as to why these approaches exist.

Chairperson

Chairpersons' approach to the board evaluation process can be defined as passive. Although responsibility for the process is acknowledged by the Chairpersons, this responsibility appears to be related to ensuring board evaluations are performed, and not to ensure the implemented board evaluation process meets a set purpose.

Lack of involvement may be related to factors such as lack of time, lack of knowledge, lack of guidelines or lack of motivation.

As indicated by the quotes below, some Chairpersons indicate that the selection process, and not the evaluation process, is the most important means to ensure high performance by the board:

"I have some expectations to the Nomination Committee, that it nominates well-qualified candidates, based partly on input from me and the competencies that are needed." (CP)

*"For me the most important thing is meeting with the Nomination Committee, absolutely the most important. What good does it do... if you don't **have** the necessary competence to understand what is going on in the company, then you can't begin to do anything about it. Can you? And then you sit there, and you can sit on the board for five years and not contribute much." (CP)*

"But if I think somebody just isn't good enough, I would tell the Nomination Committee. Because I don't think, I'm not in a training situation; I mean generally speaking it's not my job to make unsuited people more suited." (CP)

In a Norwegian context, there are mandatory requirements related to board composition, both regarding gender quota and employee representation, and the Nomination Committee is defined as independent from the board. One of the consequences is that the Chairperson has little influence on the composition of the board. This lack of codetermination influences his approach towards board evaluations as a mechanism to enhance performance. Board performance is secured by electing the right people to the board, and thus is the responsibility of the Nomination Committee.

Assuming the approach of Chairpersons is that it is the Nomination Committee's responsibility to ensure a well-performing board, this might explain the fact that the Chairperson to some degree alienates himself from the process of board evaluation, which might include leaving important elements for others to decide (such as the design of the board evaluation), or failing to set a standard for the board's work through clear goals by which it is possible to measure board performance.

The approach of the Chairperson might also be influenced by time constraints. The board evaluation process is continuous if performed properly. This involves setting clear and measurable goals, performing the evaluation, identifying the gaps and initiating proper procedures to close them, in addition to identifying new goals etc, which his takes time and dedication. If the necessary motivation does not exist, and “any” board evaluation is considered “enough” to conform to the Norwegian Code, this might influence his approach to the board evaluation. Based on my interviews, I find that the board evaluation is designed based on a wish to implement a simple, short, and inexpensive process as indicated by the following quote:

“So in this company we have chosen to do this on a more primitive basis and by ourselves. (So is this questionnaire made by you?) I’m sure we took it from another company or we usually do it by people from different boards bringing what they have and then we mix it all together.” (CP)

Or the choices implemented are the result of an historical event, and the current Chairperson has adopted the process based on other criteria than whether it fits the current situation:

“I don’t know, this was introduced by a former chair of the board, but I think it’s a very useful solution that you have an external person do it, it’s a lot of work.....” (CP)

Typically, the same evaluation is used from year to year, and they are quantitative in order to make comparisons from year to year possible.

Lack of motivation, time and knowledge may also influence the choice of evaluator. In this context, one would assume that the natural choice might be to use an external evaluator.

However, through my analysis, evidence can be found that these choices may be related to the Chairperson’s approach. A strong motivation for using an internal evaluator appears to be the signal of openness and consensus. The perception of the Chairperson is that using an internal evaluator gives a signal to the market that there are no conflicts in this board. The decision to use an external evaluator may be motivated by several factors, either the motivation to increase the credibility of the evaluation by using professionals or motivation to benchmark the board, or it can be related to the time aspect.

Given the approach of the Chairperson, there is a definite risk that the main purpose of the process of performing board evaluations becomes one of conducting the evaluation in order to conform to the Norwegian Code for Practice of Corporate Governance. This view is supported by some Chairpersons interviewed:

“(Does the board evaluation help you make an assessment or is it conducted solely in order to follow the recommendations?) It’s primarily to follow the recommendations, and it has given some useless information and also some things of course that I think are... ok.”

“Generally speaking, my experience is that this board evaluation has become more common now than it used to be. Ehh... It’s probably due to some outside pressure, but it is part of good governance to do it. I think it’s a good idea, but it can be challenging from time to time to make it real. It’s easy, you know, to rush through some questions.”

We feel we have an obligation to do that, because it is stated in the recommendation and if we don't do it, we must come up with a good explanation as to why not, God knows what that explanation would look like."

Assuming that board evaluations are performed to conform to the Norwegian Code for Practice of Corporate Governance, this will definitely influence his approach to board evaluation. As seen from section 2.8, The Norwegian Code recommends that board evaluations are performed, but does not give much input as to why and how the evaluation should be performed. Given that little effort has been put into the process of board evaluation, it may be assumed that board evaluations are performed to conform.

Support for such a view might be found in the aggregated preferred model of board evaluation (see table 5.2.2). When comparing Chairpersons' perceived models to their preferred models, 44 % indicate that they would prefer a purpose which was closer connected to the goal of the company. Knowing that the Chairperson is in charge of the evaluation process, this figure appears very high, and might also suggest that the Chairperson is aware of the situation but does not do anything about it.

In this context it can be argued that the ever increasing expectations regarding the board's work may result in a trade-off between involvement and compliance.

Board members' approaches

The gaps identified in chapter four (table 4.13.1) suggest they have little knowledge about the process of board evaluation in the company which they present. The reason for such a conclusion is the observation that board members in general do not have knowledge about the rationale behind elements of the board evaluation process and the fact that the process is not discussed at board level. Their involvement is restricted to responding to questions provided. The following quotes regarding the rationale behind the chosen process exemplify this:

"I don't know. That's the method that has been used the past years and is a bit historical." (EEBM)

"I don't know why they chose this solution. I don't know how long they have evaluated this way; I just know they had it before I joined." (EEBM)

"I don't know why they chose this one. They had used it earlier and were fairly pleased with it last time." (IBM)

"I don't know. Maybe it was the closest one? Easiest, fastest, used before? I have never tried another method. I guess it's the most used." (IBM)

"It was the Chairperson who introduced a model that he had tested in other boards, and that he thought worked well. Since we didn't have any experience from other models, there was no big discussion" (EEBM)

"We were never presented with any alternatives, or asked about methods and what we should choose. The chair said that we had to conduct a board evaluation, they wanted to use a consultant, did anybody have any objections, and since there weren't we used the consultant's method. We have never really thought of checking out any other methods, we just know that we

have used this sort of method before and we are pleased with it, and that's why we continue to use it." (EEBM)

The lack of knowledge about the process is in many situations not acknowledged by the board members, indicating that, although involvement on their side is not present, they understand the process and acknowledge it implicitly:

"The purpose is not quite as single-minded as you perhaps mean, it is more implicit that we are aiming for the best possible board work. That is our heading. And I'm sure the board members realize this without it being mentioned explicitly." (IBM)

"There hasn't been any discussion. It's not been a topic and I expect that if somebody thinks it should be brought up, they would do it. It is as simple as that." (EEBM)

"It has functioned well, not many protests. I am on many boards, so I know the frames of reference. I think it has functioned well. I am sure we can influence it. If we tell the board we want another, then we will get one." (IBM)

Most board members perceive the evaluation process to be the responsibility of the Chairperson. This might explain the passive approach of board members regarding involvement in different phases of the board evaluation process, such as to whom the result is communicated, content, modality, evaluator, and follow-up:

"(Are all the comments subject to discussion?) No, not necessarily. It's up to the chair." (EEBM)

"It's up to the chair that sets the agenda for the board meetings. Primarily to put important issues on the agenda or to review in a discussion the way we work." (OR)

As indicated by the discussion above, board members are passive participants of the board evaluation process. They are to a modest extent involved in the process other than answering the questions given in the evaluation, and they have little knowledge about the rationale behind the chosen process. Despite this, they generally expressed satisfaction with the existing process. Although it has been identified that this passive approach might be related to the Chairperson's approach, such as his willingness to involve them, board members' own approaches might also have an influence on their passive approach to board evaluation. Some possible reasons for this identified approach will be discussed below.

In my research, most board members gave the impression that they were members of a well-functioning board. This was expressed strongly by the shareholder-elected board members. If board members perceive the board evaluation as a means to solve problems, involvement in designing the board evaluation appears less necessary as indicated by the following quotes:

"It's not difficult in this company, because if one of us felt the need to evaluate the chair we would probably suggest using an independent consultant. It's as easy as that. (Do you do it?) There hasn't been a need for it." (IBM)

"I think it has been customary. I don't think we have used an external consultant, and I believe the Board in this company functions so well, have such confidence in each other so we don't need any help to achieve this." (Owner representative)

There is one interesting aspect of the concomitant lack of involvement and high satisfaction with the process. It can be argued that this is a consequence of the possibility the existing process gives board members to influence results. This is achieved as a consequence of modality being an individual assessment of the board collectively. In this context, the board members themselves have the opportunity to influence the evaluation result, and involvement in other parts of the board evaluation process may not be considered important or necessary. Such a view may be supported by the following quotes:

(Does it influence you in any way that you sort of know which score it takes since you have taken part in this several times already?) Yes, but then again, you could say that I have to be the most honest since I am elected one of the employee representatives. Not by the owner.” (EEBM)

“The first things we go over are: Why are we doing so well? Are we that good?” (EEBM)

Assuming that board evaluations have the ability to express accountability, the purpose may become to produce a good result, which may benefit the board and its members. Thus the board members do not have interest in questioning it, influencing it, or being more involved in it. If we analyze the preferred model (table 5.2.2) in terms of my findings in chapter four, we see that 3 out of 8 shareholder-elected board members not currently using an external evaluator would like to use an external evaluator. One of the reasons for this might be the ability this give to be benchmarked, in addition to adding credibility to the process.

Lack of involvement might also be a consequence of lack of knowledge. Board members tried, through the interviews, to give the impression that they possessed knowledge about board evaluations through their experience with these evaluations as board members. However, given their lack of knowledge about the process and the rationale behind it, and the fact that they accept the process without being involved, it is questionable whether they have the needed knowledge for their contribution in this process. Lack of knowledge might result in lack of interest in the process, or marginal possibility to influence it. Lack of involvement might also be the consequence of perceived lack of relevance. This aspect might be related to the use of the results as input to the nomination process. If this is the case, their relevance decreases for employee-elected board members. But it may also influence the perceived relevance for shareholder elected board members, as they view the implemented process as something predetermined, and thus something they cannot influence.

Moreover, as discussed previously, they may not be interested because they do not see the connection between board evaluation and their practical work as a board member.

Or they view the evaluation to be a useful tool in connection with conflict solving. In situations where conflicts are absent, board evaluations become less important.

Summary of the perceived actual model of board evaluation

The perceived actual model of board evaluation in Norwegian listed companies can be characterised as a model that lacks structure, communication and involvement. Chairpersons' and board members' passive approach to board evaluation is influenced by several factors.

The passive approaches identified for the Chairperson were explained in terms of lack of motivation, time and knowledge.

The identified passive approach identified for board members was explained in terms of lack of relevance and lack of knowledge, or that the implemented process agreed with board members' personal goals.

It was also suggested that the implemented board evaluation process was considered sufficient in terms of complying with the Norwegian Code and that the passive approach was a consequence of this.

Based on the analysis performed, it can be concluded that the implemented processes of board evaluation in boards of Norwegian listed companies appear to be based on conformance not performance and that board evaluations appear to be institutionalized.

Further, the approaches of individual board members will decrease the effectiveness of board evaluations and thus its usefulness as a corporate governance mechanism.

Assuming all boards have the potential to enhance their performance, there is an increased risk that boards are working sub-optimally as a consequence of this.

The findings in this section will be used as input to the suggested model of board evaluation identified on the gap analyses performed in section 5.3 and 5.4

5.2.2 Preferred model of board evaluation

When performing the interviews, board members were asked to indicate to what degree their perceived actual model aligned with their preferred model of board evaluation.

Table 5.2.2 identifies the situations where the interviewees preferred model deviates from their perceived model.

Table 5.2.2 Aggregated preferred model of board evaluation

Preferred model	Chairperson (9 interviewed)	IBM (12 interviewed)	EEBM (8 interviewed)
"Why" Purpose Of the evaluation	1/9 (11 %): Want evaluation of actual work against planned goals 3/9 (33 %): Want the purpose to be connected to company goals	1/12 (8 %): Want a purpose which is not benchmarking	1/8 (12.5 %): Goal should be linked to company goal
"For whom" Communication of the result			
"What" Content of the evaluation	1/9 (11 %): Want content to be more tailor made to the company 1/9 (11 %): Fewer questions	3/12 (25 %): Fewer questions	
"Who" Evaluator		3/12 (25 %): External evaluator	2/8 (25 %): External evaluator
"How" Modality		2/12 (17 %): Individual evaluation in addition to collective 1/12 (8 %): More evaluation of the chair 1/12 (8 %): Management should be involved 1/12 (8 %): Alternative methods should be discussed 2/12 (17 %): Want clear secondary goals	1/8 (12.5 %): More individual evaluation 1/8 (12.5 %): Want more yes and no questions 2/8 (25 %): Want clear secondary goals 1/8 (12.5 %): Want longer discussions about the result
When – timing of the evaluation		1/12 (8 %): Want mini-evaluations at every meeting	1/8 (12.5 %): Separate meeting for the evaluation 1/8 (12.5 %): Want evaluation every year
Follow-up – internal and external	2/9 (22 %): Want a general follow-up plan as every board can be better	1/12 (8 %): More follow-up on board members' interaction and behaviour 1/12 (8 %): Want follow-up plan 1/12 (8 %): Competency should be followed-up internally	1/8 (12.5 %): Want a follow-up plan

Although interviewees' perceived and preferred board evaluation models to a large extent align, there are many gaps between interviewees' perceived models (see table 4.13.1). As indicated in chapter four, further analysis of these gaps at individual board member level are left to future research. For the purpose of this chapter, the preferred model is identified separately, not together with interviewees' perceived models, and will be discussed at an aggregated level. As can be seen from table 5.2.2, the Chairperson belongs to the category of interviewees most content with the implemented board evaluation process. However, the fact that four out of nine Chairpersons prefer a different purpose than the perceived purpose appears high given that the Chairpersons acknowledge the overall responsibility for developing the board evaluation, and thus have the ability to influence the purpose. However, it should be mentioned that two of the nine Chairpersons interviewed had not yet performed a board evaluation in the board they represented in this context. Because of this, they are not included in the interviewees' perceived model identified in chapter four, and as such, they represent a normative view. The reason for including these views in the preferred model is the assumed importance this normative view has for the suggested model of board evaluation.

Of the twenty interviewed board members, only two indicate a preferred purpose different from their perceived purpose. No board members indicated they prefer a different process related to communication than the perceived process. All in all, the board members identified their preferred content to be the perceived content. Two indicated however they would prefer fewer questions. Four of the interviewees (representing 38 % of the interviewees not currently using an external evaluator) indicate they would prefer this to an internal evaluator, indicating this is the element of the evaluation process where board members to a large extent would prefer another solution than the current. Related to modality, three of the board members would like more individual evaluation than the current situation provides. Only one board member indicates she would prefer more evaluation of the Chairperson. Analysis of board evaluation forms performed on chapter four shows that evaluation of the Chairperson accounts for between 0 % and 8 % of the evaluation form (number of questions about the Chairperson compared to the total number of questions). Only four board members indicated that they would prefer a clearer goal attainment to be identified. This confirms the conclusions made in chapter four showing that many board members perceive secondary goal attainment for quantitative surveys to be clear in the sense that they know the score needed for something to be defined as "satisfactory".

Only four out of twenty board members indicated that they would prefer the internal follow-up process to be different than they perceived it at that time. As indicated in chapter four, little or no follow-up is performed as a consequence of board evaluations.

Summary of the aggregated preferred model of board evaluation

Based on the analysis above, it can be concluded that the aggregated preferred model of board evaluation to a great extent aligns with the aggregated perceived actual model. The reason for

this must be viewed together with the findings in section 5.2.1 and the suggested reason for this is discussed in this section.

5.2.3 The theoretical model

As indicated in chapter two, the academic literature on board evaluation takes a broad view of board evaluations, describing what they are, identifying different elements of a board evaluation process in terms of how they may be performed and suggesting possible effects of the different options. (Atkinson & Salterio, 2002; Cascio, 2004; Conger, et al., 1998; Conger & Lawler, 2002; Graf, 2007; Hoffman, 2003; Ingley & Van der Walt, 2002; Leblanc, 2005b-a; Leblanc, 2009; Montgomery & Kaufman, 2003; Nadler, et al., 2006; Shultz, 2009; Stein & Hewett, 2008; Steinberg, 2000; Stybel & Peabody, 2005). There are two contributions, however, that take a closer look at the whole process of board evaluation. The focus is not only on the importance of performing a board evaluation, but also the importance of doing it “right” (Kiel & Nicholson, 2005; Minichilli, et al., 2007a).

Kiel & Nicholson built a framework for board evaluation consisting of seven key questions to consider when planning the evaluation. Their main approach was to use board evaluation as a means to prevent board failure. Minichilli (2007) developed a framework for board evaluation based on the recommendation in the different Codes for corporate governance that such board evaluation should be performed. Different purposes of board evaluation were identified based on different stakeholders’ expectations. They categorised board evaluations into systems and emphasised the importance of designing a system that would fit the purpose.

These two articles are the main influence on my theoretical model presented in table 5.2.3, where the systematic approach of Minichilli, Gabrielsson and Huse has been adopted to identify a system of board evaluation. Here the rationale of Kiel and Nicholson regarding the different elements is offered.

Table 5.2.3 Theoretical model of board evaluation

Element	Theoretical model	Rationale behind
“Why” Purpose of the evaluation	Assumption of any board evaluation: Overall aim of any board evaluation is to sharpen the board’s focus in measuring its own effectiveness and contribution to company performance	The recommendation of board evaluation is introduced in corporate governance code Codes.
“For whom” Recipients of the result	First building block. Decision on recipients will influence focus in evaluation.	Clearly identified objectives enable the board to set specific goals for the evaluation and make decisions about the scope of the review. With clear objectives, it is relatively easy to decide whose performance will be evaluated, who the most appropriate person or group to perform the evaluation. All parties involved in the evaluation, or stakeholders with may be affected by the result should be informed about the result.
	Internal (board) Improve internal performance	
“Who” The evaluator	Second building block Regardless of the group of actors to whom the result is reported, the evaluation can be done by different agents, either internal or external	Important to consider the pros and cons of the different possibilities the company has regarding choosing the evaluator. The evaluator should be chosen as a result of decided goals of the evaluation. Trade-offs between independence and knowledge exist.
“What” Content of the evaluation	Third building block Four elements define effective boards of directors: Board tasks (to assess whether the board is doing what it is supposed to do). Board membership (whether the board has the right mix of people) Board culture and processes (assess whether the board has the proper working climate to perform its tasks) Board leadership and structure (assess whether the board has the right organization to function properly) The board evaluation should contain elements from all these different categories.	Objectives set should be elaborated to enable a decision regarding the content to be made. The content should be based on identified problems and should enable the company to test actual performance to expected performance within the context of the specific objective set. The vast majority of governance concerns are the result of the interplay between individual skills, experience and motivation, the relationship between the board and the management, and the effectiveness of supporting governance policies, procedures and processes
“How” Modality used	Fourth building block Modality of the evaluation (how it should be done, who should be included etc). Depends on: The amount of time the evaluator devotes to the evaluation The knowledge the evaluator has about the board Access to board operations	There are numerous possibilities regarding modality. (individual board members or board collectively, quantitative/qualitative. All or some board members? Self-evaluation or board evaluation? The right modality is important to ensure the highest possible validity in the evaluation.

The theoretical model, developed within a corporate governance context, identifies both internal and external rationale for performing board evaluations. The internal is that that boards are increasingly viewed as organisational assets, with the potential to contribute to sustainable competitive advantage (Huse, 2005a). In addition, external forces - such as institutional investors, regulators and other external stakeholders - put pressure on boards to perform evaluations in order to increase performance and to ensure greater professionalism among board members (Ingley & Van der Walt, 2002; Leblanc & Gillies, 2005).

It is argued that board evaluations may serve as an informal contracts between board members with the potential to contribute to board effectiveness, but it may also trigger a mechanism of external accountability likely to contribute to building trust and reputation (Daily, et al., 2003).

The theoretical model of board evaluation views the board evaluation process as a system where its different elements are seen as consequential for each other as building blocks. The main objective, according to the theoretical model, is to measure to what degree actual performance meets expected performance in a corporate governance context.

The decision about for whom the evaluation is performed will influence the purpose of the evaluation. This again will influence the rest of the process where all the different elements of the system should be decided with the intent of securing the highest possible objectivity. An important aspect of the theoretical model is the issue of openness and consent between board members. Board members should all agree on the purpose and understand the rationale behind the process in order to secure an effective board evaluation process.

Given that the different elements of the theoretical model of board evaluation have been discussed in depth in chapter two, the model is not further discussed in this section, but will be used as input to the suggested model of board evaluation identified in the gap analyses performed in section 5.3 and 5.4

5.2.4 Summary of the board evaluation model, and introduction to developing a suggested model for board evaluation in Norwegian listed companies

In section 5.2, three models of board evaluations have been identified:

The aggregated perceived actual model built on interviewees' perceived model of board evaluation and analysis of the evaluation form used.

The aggregated preferred model built on interviewees' preferred model of board evaluation.

The theoretical model based on existing literature on board evaluation.

These three models will be used as the basis for building my suggested model for board evaluation. Gap analysis will be performed between the three models with the purpose of identifying relevant elements for the suggested model of board evaluation. Given that the perceived actual and the preferred model of board evaluation to a great extent align, the discussions will focus on the gaps between the perceived actual and the theoretical model of board evaluation. The preferred model will be discussed if/where relevant.

The gap analysis will be divided in two. In section 5.3, the focus will be on the board evaluation process with the purpose of identifying elements that may contribute to board evaluations being a mechanism for increasing board effectiveness. In section 5.4, the focus will be on board evaluations from an external perspective in order to identify elements that may contribute to increased external accountability.

5.3 Board evaluations as a mechanism for increasing board effectiveness

5.3.1 Gap analysis

The main reason for the gaps between the theoretical and the perceived actual models of board evaluation is the fact that boards do not view the board evaluation as a system identified by the theoretical model. The evaluation process might be seen as systematic in the sense that it is performed once a year in writing and that the result is presented to the board and the Nomination Committee. However, as can be seen from the perceived actual model of board evaluation. The evaluation process is a consequence of factors other than the objective of performing an effective evaluation in which the system fits the purpose.

In the theoretical model, identification of a purpose is important and is the point of departure for a process. It is through this decision the board can identify and meet the expectations of stakeholders, and this enables the board to develop a system that will contribute to this purpose being met. It was identified from the perceived actual models of board evaluation that companies do not decide on a clear purpose against which actual performance can be measured. Although all companies expressed that board evaluations were performed for the purpose of development, no company had decided on the expected level of performance, which means that development in this context is a relative term.

The most specific purpose identified from the field research was the purpose of benchmarking. One can argue that board evaluations that are performed to benchmark are systematic in the sense that there is a clear link between purpose and content. However, the link between different stakeholders' expectations, company goals and board performance is less apparent, or does not exist at all.

In the perceived actual model of board evaluation, most evaluation processes start by deciding who the evaluator should be, not the purpose of the evaluation. Deciding on the evaluator will influence the rest of the process.

According to the theoretical model, decisions about the evaluator and modality of the board evaluation should be based on the decision of "for whom" the board evaluation is performed, i.e. its purpose. These choices should contribute to the highest possible objectivity in the process. My findings show that the choice of evaluator appears to be based on other reasons than securing an objective evaluation of the purpose. These arguments were discussed in section 5.2.1. All companies used individual assessment of the board collectively as their main method

of evaluation without considering other alternatives to ensure high objectivity of the evaluation. The result was that, in some cases, the Chairperson disregarded the result of the evaluation when communicating the result to the Nomination Committee.

According to the theoretical model, the content of the board evaluation should enable the board to compare actual performance to expected performance within the context of a set purpose. In the perceived actual model of board evaluation, the content is decided without reflecting on purpose and the content's capacity to compare actual performance to expected performance. This is the case, irrespective of whether the company used an internal or an external evaluator **and** irrespective of the modality it used.

All companies identify the purpose of giving the Nomination Committee input as one of the purposes of the evaluation. In fact, many Chairpersons find this purpose to be the most important. Despite this, I found in my analysis based on 382 questions used in the evaluations process that only 54 questions (14%) could be categorized as having relevant content to meet this purpose. Included in this number are the questions related to the Chairperson. Only 13 questions (3%) were about the Chairperson. Furthermore, I found the wording of the questions very general, (see below) diminishing their ability to measure actual performance against expected performance.

Given that companies are not clear about the purpose of the board evaluation, content with capacity to meet the purpose is difficult to develop. My analysis confirms this. I found that the number of questions ranged from 22 to 113, and they covered many areas related to the board's work. However, I found them very normative in the sense that they did not attempt to measure actual performance. They often tried to measure the overall feeling of whether board members found the right amount of time was spent on different activities, such as control activities, strategic work etc. Further, my analysis shows that 117 of the 382 questions (30%) analyzed what was outside the scope of board evaluation. These questions were related to the board's evaluation of management. 100 questions (27%) were about board processes, including input to the board. These findings suggest that the content of board evaluations is developed regardless of the purpose and their ability to measure actual performance is weak, if present at all.

It is, to a certain extent, possible to argue that there is a closer link between purpose and content in the situations where the evaluation result is used for benchmarking since the questions used are standardized to meet the purpose. However, in all companies where benchmarking was identified as a purpose, the additional purpose of giving input to the Nomination Committee was also identified. From my point of view, there is a trade-off between benchmarking and other company-specific purposes, where benchmarking dilutes the possibility to meet internal purposes given its general, standardized formulation.

The theoretical model is very clear regarding the importance of implementing a system that fits the purpose. However, the theoretical model does not discuss the possibility of the existence of multiple purposes of board evaluations. As identified in the perceived actual model, several purposes exist. In the context of designing a system that will fit the purpose, the purposes might be conflicting and result in trade-offs that influence the objectivity of the process.

In the perceived actual model, input to the Nomination Committee is an important purpose, in addition to the purposes of assessing the board processes and benchmarking.

The problem with multiple purposes in a board evaluation is thus the difficulty of designing one single board evaluation process that will fit the purpose. Despite this fact, companies design one evaluation process for all purposes.

Another problem concerning board evaluations with multiple conflicting purposes is related to the relative importance of these different purposes. As indicated, the Chairperson perceives the purpose of giving input to the Nomination Committee to be a main purpose, but he designs a system that does not fit the purpose. The apparent problems with this misfit between the system and the purpose are several: If the Chairperson perceives the result not to reflect the reality, he may alter to the result when communicating it to the Nomination Committee or disregard the result altogether. There is also the risk of the Chairperson not being included in a follow-up of the evaluation by the Nomination Committee, as little or nothing in the evaluation form is about how the Chair performs. Analysis shows that if the evaluation form is developed by an external consultant, 6 % of the questions are related the Chairperson's role, and if the evaluation form is developed internally the same figure is 2 %. As the Chairperson is the one communicating the result to the Nomination Committee, the validity of the result of the evaluation of his performance may also be questioned.

In general terms, if the purpose is to give input to the Nomination Committee, the employee-elected board members are not part of the evaluation, as they are elected by and from the employees and not through a process initiated by the Nomination Committee. Very few questions, if any at all, are about individual performance, an important aspect in the process of recruitment. Further, by far the most common modality to use is the quantitative approach, with less possibility to capture respondents' true feelings about the issue. Quantitative measures are also subject to different interpretations. In addition, the question of validity when board members are asked about their own performance or competence should always be asked.

Lastly, it can be argued that when board evaluations have multiple purposes (assuming that there is a fit between the purpose and the content) there is a high risk of evaluations becoming lengthy and unfocused. Another identified gap between the perceived actual and theoretical models of board evaluation is related to follow-up. In the theoretical model, follow-up is only discussed in terms of communicating the result to stakeholders identified with the set purpose. Follow-up in terms of closing the gap between expected and actual performance is not discussed. From the perceived actual model an apparent lack of follow-up can be identified.

This is not surprising however, given the design of the board evaluation system. As no expected performance has been properly identified, a comparison between actual and expected performance is not possible.

This problem is exacerbated by the fact that the company identifies multiple and possible conflicting purposes within the same evaluation process. Different purposes will possibly result in identifying different gaps between expected and actual performance, and different actions to close the gap might be needed as a consequence. Only one company produced a follow-up plan as a result of the evaluation. However, as indicated by the Chairperson, the follow-up plan

identified some intentions, but nothing specific, and appeared to be forgotten after a couple of meetings. The general view is that any discrepancies between expected performances were the responsibility of each board member to correct individually, and the score in the following year will be the measure by which it can be concluded that the gap is reduced or eliminated. The main follow-up is performed by the Nomination Committee as a result of the input from the Chairperson. Regarding board members' involvement in the process, the theoretical model views the board collectively. It does not indicate any specific responsibility for certain board members, and views involvement and consent as an important element of the board evaluation process. In this context, the theoretical model views boards as teams. According to the perceived actual model of board evaluation the process is driven by the Chairperson or people he chooses to involve. Decisions about the design of the board evaluation are made by him or the evaluator he chooses, without involving or informing the board. The evaluation process, as such, cannot be viewed as a team effort. Reasons for and consequences of this were discussed in section 5.2.1. This lack of involvement is a serious threat to the effectiveness of the board evaluation process itself and thus the board evaluations' capacity to contribute to enhanced board performance.

5.4 Board evaluations as a means of increasing external accountability

The previous section looked at board evaluations from an internal perspective. As concluded in the previous section, board evaluations in Norwegian companies are not designed as an effective system, and board evaluations are not used to their full potential. As a consequence of this, there is a risk that boards perform sub-optimally.

In this section, the gaps between the perceived actual and the theoretical models are viewed in terms of the board evaluation's capacity to increase external accountability. Given that board evaluations are performed as a consequence of the recommendation introduced in the Norwegian Code for Practice of Corporate Governance, it is assumed that the perceived actual model is influenced by this Code. As a consequence of this, the Norwegian Code will be included in the discussion of this section.

5.4.1 Gap analysis

The overall objective of the Norwegian Code for Practice of Corporate Governance is to "regulate the division of roles between shareholders, the board of directors and executive management more comprehensively than is required by legislation" (NUES, 2009:6). It is further assumed that good corporate governance as identified in the Norwegian Code will "strengthen confidence in companies, and help ensure the greatest possible value creation over time in the best interest of shareholders, employees and other stakeholders" (ibid:6). Apparent from the above is the focus on independence between the board of directors, management and shareholders and the stakeholder perspective of the Norwegian Code. The Norwegian Code for Practice of Good Corporate Governance states that "boards should evaluate their performance

and expertise annually” (NUES, 2009:34). The theoretical model is vague regarding frequency of board evaluation. However, it can be assumed that the frequency will be related to the system of board evaluation (see figure 2.10.1). In this context, a board-to-board evaluation system may be triggered by other factors than a board-to-market evaluation system, and thus influence the frequency. According to the perceived actual model of board evaluation, Norwegian companies perform board evaluations annually, and thus it can be assumed that it is the Norwegian Code that influences the frequency of board evaluations. However, as identified in section 5.2.1, a possible consequence of the recommended frequency of one year is that boards appear to view board evaluation as an isolated event they have to perform in order to conform to the Norwegian Code, and not as an integrated part of their work. Although companies might put a lot of effort into some of the tasks they perform as a board, such as organizing strategy away-days together with management, they do not see the board evaluation as a mechanism to enhance their performance of these “normal” tasks. This is confirmed by the fact that no company involved in the research had a clear purpose of the evaluation that enabled them to evaluate their performance specifically with regard to company goals. This will potentially dilute the possibility for board evaluations to serve as a means of increasing board performance.

The theoretical model identifies four elements to be included in an assessment of boards. Any assessment should include an assessment of board tasks, board membership, board culture and processes and board leadership and structure (see table 5.2.3). It further states that all the four elements should be included in any evaluation process within the context of the set purpose, regardless of whether the purpose may be classified as internal or external. The Norwegian Code identifies the assessment of board performance and expertise without identifying clearly what is meant by these two terms.

Through the commentary given in the Norwegian Code, the Code states that “the board of director’s evaluation of its own performance and expertise should include an evaluation of the composition of the board and the manner in which its members function, both individually and as a group, in relation to the objectives set out for its work” (NUES, 2009:39). Comparing the theoretical model with the Norwegian Code, it may be concluded that the Norwegian Code is less specific as to the elements which should be included in the board evaluation. In addition, it fails to identify what is meant by “in relation to the objectives set out for its work”. As seen from the perceived actual model board evaluations, most of the identified gaps were related to the fact that no clear purpose was decided on by the board. The purposes identified were too general to contribute to a process where actual performance could be assessed against expected performance. In all companies multiple purposes were identified.

The problem with multiple purposes was discussed in section 5.3.1 in terms of the challenges in designing a system which fits the purpose and the consequences of this. Problems related to multiple and possible conflicting purposes and how these may influence the Chairperson’s and board members’ approaches were also discussed. It was further established that the content of board evaluations was decided on independently from the identified purpose and did not fit the purpose identified by the interviewees. One reason for this might be that the Norwegian Code

does not offer the needed support or guidance for companies in their board evaluation process. The consequence might be that the implemented processes in boards of Norwegian listed companies do not work to their full potential in a corporate governance context.

From an accountability perspective, the theoretical model stresses that the result is communicated to relevant stakeholders according to the identified purpose. The Norwegian Code identifies the Nomination Committee as the recipient of the result. In relation to the identified purpose of assessing the composition of the board, the Nomination Committee is the obvious recipient of the result.

However, the recommendation to communicate the result to the owners through the Nomination Committee is inconsistent with the assumption that “good corporate governance as identified in the Code will strengthen confidence in companies, and to help ensure the greatest possible value creation over time in the best interest of shareholders, employees and other stakeholders” (NUES, 2009:6). As observed through analysis of annual reports and my interviews, the general rule is that no other stakeholders are informed about the result of the board evaluation.

Stakeholders (except the owners represented in the Nomination Committee) received information through the annual report that an evaluation has been performed. No information about the process or the result is provided.

From the perceived actual model of board evaluation it can be identified that the key recipient of the result is the board. Further, it was established that the Nomination Committee is informed of the result, although a question was put as to what extent the written result is the basis for such communication. It was also concluded that communicating the result to the Nomination Committee influenced the approaches of the Chairperson and board members towards board evaluations.

In a Norwegian corporate governance context, the Norwegian Code for practice of Corporate Governance is important. Companies see the Code as the framework and conform to the wording of the Code. In this context it is vital that the recommendation given in the Code is sufficient enough to guide companies and boards in accordance with the intention of the Code. It is therefore suggested by me that the wording of the Code regarding board evaluations should be changed.

5.4.2 Summary and conclusion of gap analysis

As seen from the analysis above, there are many gaps between the theoretical and the perceived actual models of board evaluation. In section 5.3.1, it was identified that the main reasons for these gaps are related to the fact that companies fail to identify a clear purpose of the board evaluation, making it impossible to compare expected performance with actual performance. Or they have multiple purposes that are conflicting in terms of designing an effective board evaluation system. It has also been established that the perceived actual models of board evaluation are influenced by the Chairperson’s and board members’ approaches, with the consequence that board evaluations’ capacity to serve as a mechanism to enhance corporate governance is diluted. In section 5.3.2 it was established that the board evaluation

process implemented in Norwegian listed companies to a large extent conformed to the recommendations made in the Norwegian Code for Practice of Corporate Governance. However, a question was put as to what extent the recommendation regarding board evaluation fully represents a framework that will contribute to increased board effectiveness in a corporate governance context.

The overall conclusion from these analyses is that board evaluations in Norwegian listed companies appear to be institutionalized. Identified from the perceived actual model of board evaluation, the process of board evaluation becomes the purpose. They are performed to conform. However, a conclusion that board evaluation does not contribute to board effectiveness can not be drawn from this. As a general observation, it is fair to assume that board evaluations have a positive or zero effect. It is outside the scope of this research to measure to what extent the implemented board evaluation process contributes to board effectiveness.

However, based on the analysis performed, it is possible to conclude that the process of board evaluation implemented in boards of Norwegian listed companies appears to be sub-optimal, and several areas of improvement can be identified based on the field research. The next section will use the gaps identified in this chapter to suggest measures that may contribute to increased board effectiveness by suggesting a model for board evaluation in Norwegian listed companies.

5.5 Suggested model of board evaluation in listed Norwegian companies.

The purpose of the suggested model of board evaluation in Norwegian listed companies is to present a model which may contribute to enhanced board effectiveness. The input to this model is based on the identified perceived, preferred and the theoretical models of board evaluation and gap analysis performed between these models. The perceived actual model of board evaluation is influenced by the approaches of the Chairperson and board members, as the boards themselves are left with designing the board evaluation process. One important aspect of this is that some suggestions are made on the basis of these identified approaches. These suggestions may, however, have an effect on the assumption of independence as identified in the Norwegian Code for Practice of Corporate Governance. However, as the suggested model for board evaluation in Norwegian listed companies is based on the result of the field research, this element is not considered relevant in this context.

The suggestions start by proposing elements related to the process of board evaluation, followed by suggestions made regarding the Norwegian Code. The different elements of the model are presented, followed by a discussion in terms of benefit and challenges.

5.5.1 *Board evaluations as a mechanism to increase board effectiveness*

- Board evaluation purpose(s) should be linked to the goals of the company based on the assumption that stakeholders' expectations are incorporated in these. Expected performance should be stated clearly within this context, enabling actual performance to be assessed against expected performance. The process of the evaluation should be linked to the strategic work of the board. In this forward-looking strategic process, clear goals of what is expected of the board and its members may be established.

Benefits

Deciding a clear purpose within the context of the company goals will contribute to a better possibility for board evaluations to be used as a mechanism to enhance board performance, as this will increase the relevance of board evaluations in relation to the actual work boards perform. By linking the evaluation process to the strategic process of the board, the evaluation becomes a continuous process in which the all board members are involved, which contributes to a common understanding of and knowledge about what is expected of them. A continuous approach will contribute to close the identified missing follow-up in evaluations. By integrating the evaluation process in the practical work of boards, the process of follow-up will be integrated in identifying expected performance for the next period.

If the evaluation process is linked to the strategic process, management will also get a better understanding of what is expected of them in relation to boards' work. This is important in a Norwegian context where management does not have a seat in the board room.

Challenges

One challenge of this approach is to make the goals of the company operational to the extent that the board may identify expected performance. The goals of the company may have different time-frames that may be difficult to relate to board work which is often considered to operate within a yearly time-frame. However, expectations may be divided into short-term and long-term expectations, which will give the board the possibility to structure future board evaluations accordingly. By dividing expectations into composition/structure/processes in the short and long term, board evaluations can be used as a mechanism for the board to plan ahead, not only to measure previous performance.

It is evident that such an approach might be time consuming and may involve challenges related to knowledge and expertise. However, the advantage of being aware of future expectations and thus being able to meet them should be considered. Although such an approach could pose difficulties if the board chooses to use an external evaluator -- as there may be confidentiality issues involved -- measures can be taken to ensure confidentiality.

It is also important to understand that the purpose of linking goals of the company to operational measures does not necessarily mean the use of quantifiable measures as such, but to create a platform, a common understanding by which actual performance can be measured.

By linking expectations to specific company goals, the possibility to benchmark the board will be diminished. However, if external consultants are involved, measures should be taken to ensure

that both these purposes can be measured properly, such as including company-specific elements in addition to “market related” elements.

- Measures should be taken to ensure that all different elements regarding boards’ (composition/task/processes/structure) are included in an evaluation within this framework of expected performance, including the sub-committees.

Benefits

By including all these elements in the evaluation, the board evaluation’s capacity to enhance board effectiveness increases.

Challenges

Including all these elements will make the system of board evaluation more complicated, and the designing of a system to meet the purpose becomes difficult. One possible solution might be to design different systems when assessing the different elements of board effectiveness.

- If the board evaluation includes multiple purposes, measures should be taken to ensure that the system of board evaluation meets the different purposes.

Benefits

Designing different systems for different purposes will enable the company to ensure objectivity of the process.

Challenges

A process with different systems to fit different purposes is time consuming. However, by discussing different systems in terms of the given purpose(s), the board will be able to identify the system which best enables it to address itself to the given purpose(s). On the other hand, they may decide on a system that addresses itself to the purpose(s) targeted as most important

- An individual appraisal of all board members should be performed regularly. Regardless of the evaluator, measures should be taken to ensure that an objective and relevant appraisal is performed which is related to competence, structure and processes.

Benefits

With this appraisal system all board members will be evaluated.

An appraisal system will give the individual board members an opportunity to develop through their board work and enhance their contribution in a value creation context. If performed within a safe and confidential environment, it will possibly be a positive and motivating experience.

Increased self-awareness of what is expected may contribute to more active self consideration by individual board members regarding their own position, and whether they have the necessary time, or capacity, to stay on as a board member.

An appraisal system of individual board members may have the capacity to offset some of the trade-offs between a board evaluation linked to the goal of the company and a board evaluation in which benchmarking is the main purpose. As indicated earlier, these evaluations tend to be too general and standardized. Moreover, this can be at the expense of their ability to measure actual to expected performance in terms of company goals.

Challenges

An appraisal system of individual board members will add to the already heavy workload.

An appraisal system may contribute to board members withdrawing from the board or to a situation where board members may choose not to take the seat if offered. However, support for such an appraisal can be found both in the Norwegian Code of Corporate Governance and in other Codes of Corporate Governance. Conducted correctly, it will benefit both the individual director and the company for which the director has offered his services.

- Job descriptions should be developed for all existing board members, which will contribute to an increased understanding of expected performance and which can be used as a framework for individual board member appraisals.

Benefits

A job description for the Chairperson and board members may contribute to an increased sense of mutual accountability, and thus enhance the possibility for boards to work as teams.

Job descriptions will make board members more aware of their responsibilities as they will identify what is expected performance for board members of the company.

Job descriptions will give the board member and the Chairperson the possibility to identify possible gaps between actual and needed competence and to implement necessary measures to close the gap

Challenges

Development of job descriptions that fit the company and the composition of the board may be difficult to carry out, both because company's situations change, but also because job descriptions developed for individual board members may lead to different expectations for different board members. This might lead to a decreased feeling of board collegiality. However, these job descriptions should be developed based on a Code of Conduct and be stated in general, but still operational, terms in order to mitigate this.

- In situations where gaps between expected and actual performance are identified at board level, a follow-up plan should be developed with input from the board members to increase the involvement of board members impacted by this. Responsibility for the developed follow-up plan -- including initiating measures to eliminate the identified gaps -- should be given to one or two board members to ensure a continuous process.
- In situations where gaps between actual and expected performance are identified for individual board members, a follow-up plan should be developed by the evaluator and the individual board member. Measures should be taken to ensure that proper initiatives are taken to close the identified gap(s), and to ensure that the initiated procedures were effective in closing the identified gap(s).

Benefits

By involving the board in developing a follow-up plan, all board members are equally responsible for the board's collective performance and this might increase mutual accountability. Assigning responsibility for the developed follow-up plan to certain board members gives them the possibility to ensure that efficient measures are taken to close the identified gaps, as supervision of the follow-up plan is assigned to specific board members.

By developing a follow-up plan for individual board members, individual accountability might increase. By establishing needed follow-up at an individual level, the plan is tailor-made to each board member, which will increase the possibility to ensure efficient measures are taken to close the gap. If such a plan is developed by the individual board member and the evaluator, there is a possibility for higher objectivity in the search for the appropriate measures. The process of identifying measures to close gaps at an individual level might be motivating for the individual board member as it will enable clear goals for expected performance to be identified.

Challenges

With such an approach, it is important that the board members who have been assigned the responsibility have the knowledge, time and motivation to initiate the best possible measures to close the identified gaps. A possibility in this context is to involve persons from management, the board secretary or possibly an external consultant (or external evaluator) to ensure the right measures are taken.

The identified gaps might not involve the board collectively. In this case it is important that different alternatives are considered when identifying measures to close the gaps, whether this might be solved through measures being taken for part of the board or the individual board member. The important element in this is that accountability is established for the board collectively, as well as for individual board members, in order to ensure that actual performance aligns with expected performance.

In the case of developing an individual follow-up plan, it is important that this is performed in a “safe” environment that contributes to a high level of objectivity and honesty on the part of the parties involved.

- Job descriptions should be developed for possible future board members. These descriptions should specify the needed competency a possible candidate should have, and what will be expected of the right candidate.

- The Chairperson should have the overall responsibility for developing a job description that can be used by the Nomination Committee in their search for candidates. The developed job description should be used as the basis for a job advertisement and made public.

- The Chairperson should be involved in interviewing the possible candidates, as he has the knowledge to consider the candidate against the set competency requirements.

Benefits

Development of a job description for future candidates will increase the awareness of the Chair regarding the relevant competency of board members. It will force him to have a pro-active attitude towards this to ensure that future board members meet current and possibly future expectations. In a board evaluation context, this will contribute to separating the purpose of using board evaluation as input for Nomination Committee from the purpose of ensuring that other elements of board effectiveness -- such as board tasks and processes -- are properly dealt with in the board evaluation. This will make it easier to develop a system of board evaluation that fits the purpose.

A job description, followed by a job advertisement, can increase the number of possible candidates for the job and thus contribute to the likelihood of choosing the best candidates for the job.

Increased involvement in the selection process may increase the possibility that the “correct” board members are selected. The Chairperson has a good understanding of the processes of the board, and his expertise will be valuable in this process, both in terms of giving input to the Nomination Committee, but also as a part of the interviewing team. It will also provide the possibility to influence the Chairperson’s approach, in the sense that it will contribute to increased responsibility for ensuring that boards work as teams.

Challenges

Chairpersons’ involvement in selecting board members may jeopardize the existing independence of the board vis à vis the Nomination Committee, and it may lead to a situation where board members are selected based on subjective criteria. However, against this it could be argued that -- as the board works as a group -- selection criteria should be based both on

objective and subjective criteria. It is not only a question of whether or not the candidate possesses the necessary competence, but also their ability to use it.

- New and existing board members must receive the necessary training to enable them to attain the competence necessary to perform according to expectations. This must include training that is related to the company, but also training relevant for board works in general.

- Mentoring arrangements should be implemented to ensure that board members have the necessary backing to perform their best for the company.

Benefits

A mentoring system may contribute to board members' development and, as such, might increase the level of competence needed as a board member. It can contribute to an increased willingness and motivation by board members to acknowledge their possible lack of competence and thus enable them to meet expected performance.

A system of training for board members might contribute to a better understanding of the expectations board members face, both in relation to the company but also in a wider corporate governance context. This will enable the boards to perform in accordance to these expectations, and thus enhanced corporate governance might be achieved.

Challenges

A mentoring system might have some confidentiality issues related to it. It is thus important that the mentoring system is developed to ensure that these issues are dealt with. If the mentoring system involves an external mentor, elements regarding confidentiality issues can be dealt with through agreements between the mentor and the company, or they can be dealt with through a code of conduct. Another possibility is to have a mentoring system within the board. An assumption for an internal mentoring system is to ensure the acceptance of such a system and the willingness for board members to act as mentors.

A final word regarding the suggested model of board evaluation in Norwegian companies. It is evident from the suggestions that this model will possibly add to the already existing workload of board members (time), and that there might be some costs involved in implementing this model. As a consequence, implementation of this model will possibly lead to a discussion about board member compensation in addition to the increased cost of implementing a new system for board evaluations. It is, however, important that discussions are performed in a cost/benefit perspective. It is considered outside the scope of this thesis to do this.

5.5.2 Board evaluation in a corporate governance context – input to the Norwegian Code for Practice of Corporate Governance

As seen from section 5.4.2, The Norwegian Code for Practice of Corporate Governance is an important element of corporate governance in Norway. Companies and boards look to the Code in their governing. Although Norwegian companies, to a large extent, conform to the code regarding board evaluation, the research conducted gives some indications that conformance to the code is not sufficient from a performance perspective.

To increase the possibility for board evaluation to contribute to enhanced board effectiveness, some suggestions are made regarding the wording of the code to ensure clear guidance for companies in their process of board evaluations.

Instead of using the word annually, indication should be given that the board evaluation should be performed regularly in order to stress that an evaluation is an integrated part of the board's work. As an alternative, the word annually may be kept, but change should be made in the wording related to who the result should be communicated to. As of now, the word "annually" together with the recommendation that the result should be communicated to the Nomination Committee suggests that the evaluation should be used in the nomination process. This decreases the board evaluation's capacity to enhance board effectiveness.

By recommending that the result of the board evaluation should be communicated to the Nomination Committee, the Code favours information to owners (represented on the Nomination Committee) at the expense of other shareholders and stakeholders in general.

From a corporate governance perspective, and as indicated in the Norwegian Code for Practice of Corporate Governance, good corporate governance will "strengthen confidence in companies, and...help ensure the greatest possible value creation over time in the best interest of shareholders, employees and other stakeholders"(NUES, 2009:6).

In addition, the board evaluation process is influenced by the recommendation that the result should be available to the Nomination Committee. One possibility is to take out the sentence about the result being made available to the Nomination Committee. By doing this, the Norwegian Code does not favour any stakeholders regarding the evaluation result. In addition, this might contribute to a board evaluation that gives scope for assessing all elements of board effectiveness.

From an accountability perspective, stakeholders in general should be informed about the process. The Norwegian Code leaves the choice to the companies as to whether they want to communicate the result to other parties than the Nomination Committee. The consequence of this is that companies give information in the annual report that a board evaluation has been performed, without giving any details about the process. To enable stakeholders to make an assessment of the work of the boards, the Code should include a recommendation that

stakeholders should be informed about the process and the result. Through this, increased accountability can be ensured, both for the board collectively but also for individual board members. This again may contribute to increased confidence in companies and their stakeholders and may lead to greater value creation

In addition, stakeholders will have a better possibility to make judgments about board performance. If board evaluations are viewed as a contributor to value creation, more companies will perform a board evaluation, which is beneficial given they have the ability to increase board effectiveness. However, against this it may be argued that giving too much information might compromise the validity of the board evaluation, as they may be viewed by the company as a means for creating a competitive advantage. In addition, there may be confidentiality issues related to such an approach. As a consequence, considerations regarding how the information should be presented and the content of it must be made.

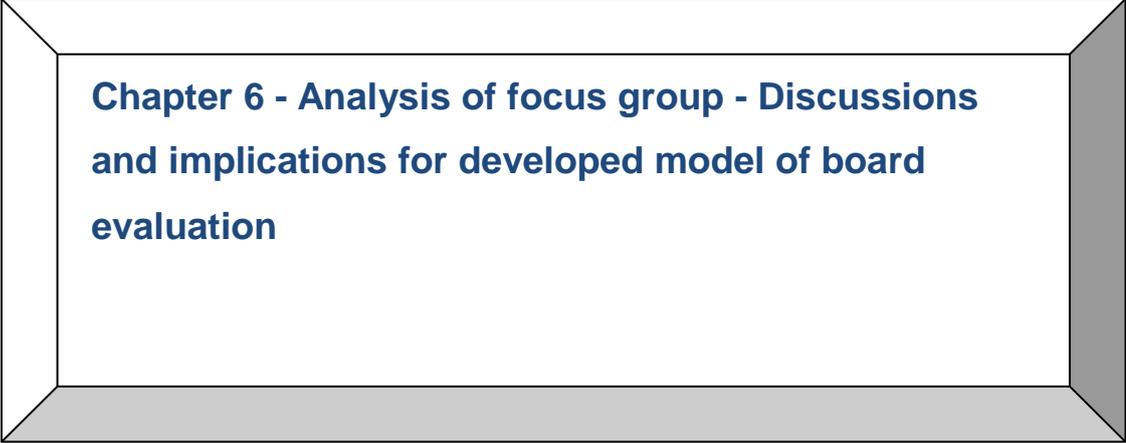
5.6 Summary

The purpose of this chapter has been to suggest a model of board evaluation for boards in Norwegian listed companies. Based on the field research, an aggregated perceived model and an aggregated preferred model of board evaluation were identified and discussed. The purpose of this discussion was to identify the approaches adopted by boards in Norwegian listed companies and the factors influencing the approaches. The two above mentioned models were then compared with the theoretical model of board evaluation identified through the existing literature on board evaluation. The purpose of this comparison was to identify gaps between the models and to suggest reasons why these gaps exist. The findings from the gap analysis were then used as input to a suggested model for board evaluation in Norwegian listed companies, a model which is assumed to have the ability to close the identified gaps and thus increase the possibility for board evaluations to be a mechanism to enhance corporate governance.

The developed model of board evaluation makes suggestions related to elements which are assumed to have an effect on the process of board evaluation, but it also makes suggestions regarding the Norwegian Code for Practice of Corporate Governance, given that Norwegian companies and boards use the Norwegian Code as the framework for conducting corporate governance in a Norwegian context.

As indicated in chapter three, it was decided to use a focus group to increase the conclusion validity of the research. Conducting a focus group would also provide an opportunity to discuss the developed model of board evaluation in Norwegian listed companies. The purpose of this discussion was to test the model in terms of feasibility, with the possibility of receiving input from the focus group relevant to my suggested model.

The focus group is discussed in the next chapter.



**Chapter 6 - Analysis of focus group - Discussions
and implications for developed model of board
evaluation**

6.1 Introduction

Based on the analyses performed in chapter four and five, conclusions were made regarding boards in Norwegian listed companies' approaches towards board evaluations and factors affecting these approaches. Based on the analyses performed, it was concluded that the process of board evaluation implemented in boards of Norwegian listed companies appears to be sub-optimal. Several areas of improvement were identified and were used to build a model for board evaluation in these companies which, if implemented, would contribute to enhanced corporate governance in a Norwegian context.

As indicated in chapter three (section 3.1.3), it was decided to use a focus group for triangulation purposes. Most literature discusses the use of focus groups as a means to collect data in the research process (Bryman, 2004; Hair, et al., 2007; Johannessen, Tufte, & Kristoffersen, 2006; Saunders, et al., 2007; Silverman, 2005), either as the only method of data collection or in combination with other methods. As a triangulation method, focus groups can be useful to increase validity of a research and, depending on when in the process the focus group is used, may have the ability to increase the external, internal, construct and conclusion validities (Bickman & Rog, 1997; Jonsson, 2007; Scandura & Williams, 2000; Smith, 1997)

In this research, the use of a focus group was considered less useful as a method of data collection for reasons identified in chapter three (section 3.1.3). However it was considered useful as a method of increasing the conclusion validity of the research. In addition it would give me the possibility to discuss the model for board evaluation developed as a consequence of the findings in this research. One of the reasons it was decided to use focus groups for this purpose is based on the findings from the analysis of the interviews. One distinctive observation is the differences in perceptions among the interviewees regarding the board evaluation process. In one-to-one interviews, the perceptions of the interviewees will not be challenged. However, discussing the process of board evaluation in a focus group would enable differences in perceptions to be challenged by other participants, enabling me to get a more realistic view of the perceptions identified through my analysis.

The process of the focus group will be presented and discussed in the following sections.

6.2 Preparing for the focus group

6.2.1 Selecting participants

When selecting participants there are some important considerations to make regarding the size of the focus group and the participant to be included.

Regarding the size of the focus group, different views can be identified from the literature.

(Morgan, 1998) argues that the size of the group should be between 6 and 10, depending on the topic to be discussed. If the topic is difficult, or the participants are likely to have a lot to say

about the topic, smaller groups are preferable. Larger groups are better if the expected involvement in the topic is low or the researcher wants to hear a number of brief suggestions (Bryman, 2004). In this focus group, 12 people were invited. Although this number is relatively large for a focus group, it was a consequence of several trade-offs being made. The number of participants was decided with consideration for the representation of different categories of participants useful in terms of adding to the research and the number of focus group discussions that were possible to conduct and the topic to be discussed.

The participants who were to be invited to the focus group were to represent different categories:

Board members who participated in the research.

Within this category, board members representing the three different categories (Chairperson, IBM, and EEBM) were to be invited

Board members who did not participate in the research, but had experience with board evaluation in Norwegian listed companies.

The most important selection criterion regarding this category was to invite people with experience with board evaluation both as Chairperson and board member. As this increases the conclusion validity of the research, the size of this group should be larger than the category of board members who participated in the research.

Representatives for the Norwegian Corporate Governance Board (NCGB) in charge of developing the Code for Practice of Corporate Governance.

The purpose of including NCGB in the focus group is firstly the fact that some of the suggestions made in my model involve changes to the Norwegian Code for Practice of Corporate Governance and this would give me an opportunity to discuss these suggestions with this board. Secondly, as the NCGB develop the recommendations for practice of corporate governance, it was important to include them in the focus group in order to identify some of the issues of practicing the recommendation regarding board evaluation as identified in the research.

Representatives from the external consultants offering a service to conduct board evaluation.

The views of this group were considered useful in several ways, mainly because they have performed many board evaluations and, as such, may be able to add to the conclusions made. In addition, their expertise may be useful in considering the applicability of the suggested model. By including all four categories in the focus group, the number of invitees would be large. However, this had to be considered against the possibility of conducting several focus groups. Board members of listed companies are busy people. The possibility to conduct more than one focus group was considered unrealistic for this reason. The fact that these people are busy also increased the possibility for no-shows at the time of the focus group discussion. In addition, if several small focus groups were to be conducted, it could possibly have an effect on their motivation to contribute. For these reasons, it was decided to conduct one focus group meeting and to invite a relatively large number of participants.

The topic to be discussed and participants who were presumed to have substantial involvement in the topic both imply a low number of participants in the focus group. However, given that it was decided not to have several focus group meetings, some measures were taken to diminish the down-side of a large focus group. It was decided to send out relevant material to the participants before the focus group. This material included a summary of the study performed, the findings, and the suggestions put forward. Included in this summary were also the questions which were to be discussed. The information sent out is posted as appendices 6.1 to 6.2.

Selecting people

When deciding on whom to invite from the group of board members involved in the research, I started with people who I knew were located in the nearby area to increase the possibility for attendance. Many of these people are located outside Oslo, making this more difficult. In addition, it was important for me to select people who I knew were interested in board evaluations in order to ensure contribution. Emails were sent to three board members included in the research, one from each category of board members. Attendance from an EEBM and an IBM was obtained, while attendance from Chairpersons proved not to be possible. Invitations were sent to three Chairpersons but none of them were able to attend.

When selecting people from the group of board members not included in the research but with experience from board evaluations in listed companies, another approach was chosen. During a meeting in the network I was a member of (consisting of members of Audit Committees in listed companies), I asked for permission to contact them with regard to the focus group. Such permission was granted and a general invitation was sent out to each member of the network member by email. This invitation gave a short presentation of the purpose of the focus group and gave indication as to the relevant experience related to board evaluation these participants should have. Those interested in participating were asked to send me an email with an overview of their previous experience with board evaluations as Chairperson and/or board member. Eight board members responded positively to my request. At that time, the meeting date had not been decided. When the meeting had been scheduled, three of the board members had to withdraw from the focus group due to other obligations. To meet the problem of no-shows on the day of the focus group, another invitation was sent out to the former Chairperson of the Norwegian School of Management, who is also a board member in several listed Norwegian companies, including one of the companies participating in the research. He agreed to attend. The six board members accepting to participant had the following experience regarding board evaluation:

Three had experience as board members

Three had experience as both Chairperson and board members. For the purpose of categorisation, these are referred to as Chairpersons. The reason for this is that their participation was based on their experience as Chairperson.

Two of the board members invited to the focus group with experience both as Chairperson and board member had a seat on two of the boards included in my research. However, none of them had previously been interviewed.

When selecting people from NCGB, an email was sent to the Chairperson of the board with a request for participation. The result was that they all (nine people) expressed interest in being part of the meeting. Due to size restrictions, it was agreed that two people could attend, and the Chairperson was left with the choice of whom he wanted to attend.

When finding representatives from the last group -- external consultants -- I contacted the largest company in Norway that conduct board evaluations. This is a company I have previously been in contact with regarding this research, including attendance at one of the courses they organize on board evaluations. They were very eager to attend. To keep the number of people to a minimum, it was decided that one representative from this group should participate. In summary, the board members agreeing to participate can be categorised as follows:

Table 6.2.1 Categorisation of board members included in the focus group

Group \ Category	Experience as Chairperson	Experience as board member	Other relevant affiliation
Participant in the research		2	
Experience with board evaluation in listed companies	3	3	
Other relevant affiliation			3
Total participants	11		

Although all the persons identified above had agreed to participate, the risk of no-shows at the day of the meeting would always be present. A couple of days before the meeting, a list of participants was sent out to all participants previously agreeing to attend. It was assumed that by identifying the different participants, the perception of importance of the meeting would increase, and with it the motivation to contribute.

At the day of the meeting all invitees showed up.

6.3 Conducting the focus group

The focus group was conducted as a breakfast meeting. The time scheduled was two hours, from 8:30am to 10:30am and breakfast was served at 0800.

Due to the time limit, a strict time schedule was developed. Given the fact that relevant information related to the topics to be discussed, the questions to be asked, and practicalities

related to the meeting were distributed before the meeting, only 15 minutes (at the beginning and at the end) had been allocated to introduction and sum-up. The rest of the time was allocated to discussion. The time schedule is posted as appendix 6.3.

The participants were divided into three cohorts, and seating arrangements had been prepared to ensure the participants be seated accordingly.

The participants were divided to ensure the following mix of people in each cohort:

The person representing NCGB and the person representing the external consultant were allocated to different cohorts.

The persons representing the category board members not included in the research, but with experience from board evaluation in listed companies (as board members), were allocated to different cohorts.

The category of participants not included in the research, but with experience from board evaluations in listed companies, (as both Chairperson and board members), were allocated to different cohorts.

The two participants included in the research were allocated to different cohorts.

The three cohorts thus consisted of three people in one group, while the two other cohorts had four people. The three women participating were, through this arrangement, allocated to separate cohorts.

The topics to be discussed were divided into three:

The process of board evaluation as identified in the research.

Suggestions made on the basis of the findings with the possibility to influence the board evaluation process.

Recommendations regarding the Norwegian Code for Practice of Corporate Governance.

Overview of how the different topics were presented to the participants is added as an attachment to the thesis (Attachment 6.2).

The discussions were conducted as follows:

Each of the topics was discussed for 15 minutes by the cohort, followed by a 5 minute presentation/discussion by each cohort. As a facilitator, I did not intervene with the cohort during the discussion. However, during the presentation and discussions I acted as a Chairperson, ensuring that the discussions were kept "on track". In this process it was also necessary to contribute some clarification regarding elements discussed with reference to my research.

The focus group ended with a short presentation from me regarding how the result of the focus group would be used.

The focus group ended at 10:45am, 15 minutes behind schedule.

6.4 Analysing the result

6.4.1 Introduction

The discussions conducted in the focus group (after discussions had been performed within the different cohorts) were recorded. The recordings were transcribed for the purpose of analysis. The analysis is split into three, according to the different topics discussed. The purpose of the analysis was to increase the conclusion validity of the research, and to identify elements that could change the suggested model of board evaluation. For the purpose of anonymity, the quotes used in the analysis are categorised according to their main categorisation (as board members or Chairperson, as representative for the NCGB or External consultant), without mentioning names.

Although none of the participants expressed it explicitly, it is fair to assume that they perceived the result of my research as a “criticism” of the implemented process of board evaluation in boards of listed Norwegian companies. It is also fair to assume that the participants of the focus group agreed to participate because they had a special interest in board evaluations. These observations were considered important in my analysis of the discussion. The time spent discussing the topic was limited. Based on this and the fact that the participants are highly involved in the topics, it is fair to assume that the topics the participants chose to discuss in plenum were the elements which the participant had the strongest views about.

6.4.2 Topic A - The board evaluation process

The first topic to be discussed was the board evaluation process in Norwegian listed companies. The participants were asked to discuss the following:

Please discuss the findings as presented in the information given prior to the meeting and reflect on the following:

- *To what degree do the findings align with your own experience with board evaluation?*
- *Are there additional elements based on your own experience that you find relevant and want to add?*

Two out of three Chairpersons felt the board evaluation process as described did not fit their perception of the process as a whole. In their view, the board evaluations they had been part of could be categorized as good, as was expressed by one of the Chairpersons present:

“I don’t recognize the findings. I think that our board evaluation is very good”

However, the board members, and one of the Chairpersons had a somewhat different perception. Although most of them perceived that the picture drawn by me was somewhat

“gloomy”, they expressed a view that to some extent aligned with the findings. However, they were clear about the fact that board evaluations in general contributed positively to the board’s work. This can be identified from the following quotes made by different board members:

“I started out by saying that I do agree with the findings, but after discussions in the group, I do agree that it is difficult to make a general summary of the board evaluation process.....We agree that there is room for improvement.....Nevertheless, I think it is important to separate our perceived benefit of the process and your conclusions regarding how much better it could be”

“I think that this yearly exercise of filling in forms is something we do to conform, while the ongoing discussions we have and how we function is more valuable. But these forms.....I do feel they are something in addition to the evaluations we do”

“In the boardroom, there are many animals.....It is common that there are one or two driving forces behind the process, while others are more interested in “ticking the box”, and that is what we have done”.

The representative from the NCGB expressed some concern regarding the findings, but I think this is related to the relatively short time this has been part of the recommendation:

“I think the results were more discouraging than I would have thought and hoped for. That said, I think it is important to understand that board evaluations are not an exercise with long traditions in Norway.....it is natural that this will not function perfectly the first or the second time it is done. In other words, I think this is an area which I think will improve in the time to come”

The area where most of the participants disagreed with the findings was related to the purpose. The summary of the board evaluation process given to the participants before the meeting stated that “no clear purpose” for the board evaluation was decided. Some of the views expressed by the participants -- both Chairpersons and board members -- were:

“When you write ‘no clear purpose with the evaluation’, it surprises us; both as board members and member of Nomination Committee. On the contrary, it appears to be a very clear purpose with the board evaluation. It make sense to do it....We agree that, at least in the board evaluations we both have been a part of, the purpose is to assess the board as collegiums”.

“We also disagree with the statement that there is no clear purpose. In our experience, the purpose is to improve the work of the board”

When considering these views, it is clear that these expressions align with what the interviewees in my research expressed. The main view is that board evaluations are performed to develop. However, what is meant by this statement and -- as explained in the table given the participants -- the purpose of the board evaluation is too general to be able to develop a system of board evaluation which fits the purpose. The conclusion made by me is related to gap analysis of the theoretical model and the perceived actual model of board evaluation as identified in chapter five. In the discussion this explanation appears to be disregarded by the

participants. However, to the extent that this element was misunderstood by the participants, it gave me an indication that it is important to make this point clearer.

Another interesting discussion was related to the purpose of the board evaluation to give input to the Nomination Committee. As found through my analysis, Chairpersons find this purpose to be important, while the majority of the board members did not see this as a purpose. However, the views of the Chairpersons in this focus group were more “careful” than those of some of the Chairpersons interviewed in their indications regarding the Nomination Committee’s use of the input:

“The Nomination Committee – very important. But this committee it is not the primary addressee of this; the board is. The bonus, given that the board itself has performed the evaluation, is that you have an instrument, some information which the Nomination Committee might find useful. That is why this information should be communicated to the Nomination Committee.”

“The most important element of the board evaluation is to assess how the board works. Input to the Nomination Committee is a secondary purpose”

Based on these quotes, it is confirmed that Chairpersons perceive the Nomination Committee as an important recipient of the evaluation.

What was not discussed was in what form and how the result is presented. This element has been an important element of the analysis performed by me, and thus considered an important element of the process.

An interesting issue is related to my suggestions about how a board evaluation conducted by the Chairperson -- and the fact that the result of the board evaluation is communicated to the Nomination Committee -- might affect the approaches of the board members as identified in chapter five (section 5.2.1.2). This concern was confirmed by the EEMB in the focus group:

“If a board evaluation goes directly to the Chairperson, the objectivity of the evaluation can be jeopardized. It is not always easy to say what you mean to the Chairperson. You might be afraid to express your mind if it deviates with what the Chairperson thinks. As an employee-elected board member however, you are more unapproachable to the owner.”

And by the representative of the external consultant:

“I think it is important, if the result is to be communicated to the Nomination Committee, to be conscious of the effects this might have on the evaluation result. If it is communicated that the evaluation result is the property of the board, there’s one result. If one communicates that the result will be given the Nomination Committee, the result is another.”

This suggests that the objectivity of the board evaluation might be influenced by the above mentioned process.

The representative from the NCGB focused on the fact that the board evaluation was communicated to the Nomination Committee:

“It is my opinion that the board does not have the responsibility to ensure the Nomination Committee is informed, and thus should not help the Nomination Committee to find candidates for the board. This is the responsibility of the Nomination Committee. It is strange if

elements from the board's own evaluation are the final input that the Nomination Committee uses in their process. The Nomination Committee should act independently from the result of the board evaluation."

From his point of view, the board evaluation process should not be identified with the work of the Nomination Committee. However, as will be discussed later, the Norwegian Code for Practice of Corporate Governance suggests this should be done, and the practice of doing this should be viewed in that context.

6.4.3 Suggestions made regarding the board evaluation process.

In this part, the participants were asked to discuss the recommendations put forward as a response to the findings in my research, and they were asked to comment on these suggestions in terms of their feasibility and implications for board of directors in Norway. They were also given the possibility to add to the suggestions.

Although most of these suggestions are directly related to the process of board evaluation, it is a fact that some of the suggestions made are not directly related to the process of board evaluation, but they are included because it is assumed they will have an impact on board evaluations. This element was communicated to the participants.

There were two elements of particular interest to them: the suggestion to involve the Chairperson in the interview process, and the suggestion that job descriptions should be developed.

The participants had a lot of views regarding the aspect of **how** and **if** the Chairperson should be involved. In general terms, board members viewed the involvement of the Chairperson as useful, while the representatives for the NCGB viewed the involvement of the Chairperson in the process of selecting board members as unacceptable. The main view was that this would jeopardize the independence of the Nomination Committee, excluding him from being included in the process of the board assessment performed by the Nomination Committee:

"I think this is a very dangerous way to go. We must not forget that the Chairperson is also being assessed by the Nomination Committee....The burden of the Chairperson role is already heavy....This is not a task the Chairperson should be given. But IF this is suggested, he should turn down the offer."

Although the representative for the NCGB expressed a strong view against the involvement of the Chairperson, his views were expressed within the context of the Chairperson being a member of the Nomination Committee, and thus being able to be involved in deciding membership as the following quote shows:

"It is the Nomination Committee and the Nomination Committee alone which has the responsibility to decide who should be the Chairperson and who should be board members. This responsibility is not something they can share with others."

Based on my analysis, the Chairperson appears to have a strong influence on the nomination process without being a full member of the Nomination Committee. My suggestion was based on this observation. The point made by the NCGB is useful in the sense that my suggestions

make the existing process legitimate, and he does have a point regarding the possibility of less independence. However, as mentioned in section 5.5, the suggestions made by me are put forward because they are assumed to have an impact on the board evaluation process. Other consequences have not been considered.

The views expressed by the board members were more aligned with my suggestions. They agreed that involvement on the part of the Chairperson might be useful, but stressed the importance of putting this involvement into context. The premises regarding when the Chairperson should be involved should be decided by the Nomination Committee. As one of the Chairpersons pointed out:

“In principle, the process of nominating and selecting board members is the responsibility of the Nomination Committee. Then there is the practical side of this. The question is: what are the important elements to ensure the board works as a team? And then the next question is, who is the person best suited to give input to this process? I think it’s expedient that the Nomination Committee listen to the Chairperson. In some situations, it can be appropriate that the Chairperson is present during an interview, or conducts an interview. However, this should not be the general rule. It should be up to the Nomination Committee whether the Chairperson should be included or not. This is important, because the Nomination Committee may become dependent on whether the Chairperson functions, or whether he is influencing the process too much.”

Another participant offered an explanation for the existing practice; lack of involvement by the Nomination Committee:

“In Swedish listed companies, the Nomination Committee performs individual interviews with all the board members. This I have never experienced in Norwegian Companies”

The composition of the Nomination Committee in Swedish listed companies is different than most Norwegian Nomination Committees in terms of owner involvement, which might explain the level of involvement in assessing Swedish board members. However, the view expressed aligns with my views from this research that the Nomination Committee appears to be very passive collectors of information related to board processes. Only one of the companies included in my research reported that the Nomination Committee performed interviews of the board members, suggesting they had a separate process of assessment in addition to the process conducted by the board. To what extent this is a fact for most Norwegian listed companies is not discussed in this research, but is left to future research.

The next topic of interest was related to my suggestion that job descriptions should be developed and these should be what the board members could be assessed by. In general, the participants contributing with views on this matter all agreed that this was not something they would recommend. Several reasons were given:

“Boards are collegiums. Board members have equal responsibilities, regardless of whether you are an employee-elected board member, or a shareholder-elected board member. Job descriptions to fit individual board members do not fit into this.”

“This is a problem, as the boundaries between the role of the board, the Nomination Committee and the General Meeting become blurred”

The representative from the NCGB was also concerned with job descriptions in general, but especially with the fact that the suggestions made regarding board evaluations were crossing the border to what was defined as the responsibility of the Nominations Committee:

“I do not think job descriptions fit into this at all. And least of all the suggestion that the board itself should be involved in developing the job descriptions.....In general terms, I think you develop roles for the board which overlap with the responsibility of the Nomination Committee.

Although most of the participants disagreed with a suggestion to develop job descriptions -- arguing that it might jeopardize boards as collegiums -- a discussion later about ensuring the competency of board members might shed some further light on this discussion. When discussing the suggestion of giving board members the necessary training to fulfil their responsibilities, most board members felt that all board members had the responsibility to ensure they had the needed competency. One argument given was that:

“A board is not an arena for training people. If you feel you do not have the necessary competence, then you say no to become a board member”.

However, the same participant also expressed his concern regarding to what extent owners in Norwegian listed companies (especially the Norwegian Government) were able to ensure that the board members representing them had the necessary competence.

When viewing the arguments put forward by the participant in this context, a job description, as suggested in section 5.5., is useful both in terms of selecting and for assessing. In the context of assessing, such job descriptions could be used as a framework by which the board members could be assessed, but also to ensure that any gaps between needed and existing competence could be identified and possibly closed. For this to be possible, it appears to be important that the job description should not be so specific that it cannot incorporate changing needs of the company.

6.4.4 Recommendations regarding the Norwegian Code for Practice of Corporate Governance.

In this part of the discussion, the participants were asked to discuss the given recommendation and suggestions put forward regarding the Norwegian Code for Practice of Corporate Governance and to discuss the following:

- *To what extent do you think the Code can be used as a framework when performing board evaluations?*
- *Do you think the suggestions made will enhance the possibility to use the recommendations as a framework for board evaluations?*

- *Do you have other suggestions regarding the Code that will enhance the usefulness of the recommendations?*

Due to the fact that the discussions regarding the previous discussions were lengthier than expected, this discussion was performed in plenum.

What was clear from the discussions was that most board members did not have extensive views regarding the suggestions put forward. One main concern of the board members was overly detailed recommendations. It was thought that there was a positive correlation between detailed recommendations and “ticking boxes”. As one of the participants said:

“I think it is very important that the wording of the recommendations stays broad in order to avoid ‘ticking boxes’. I do not believe in detailed recommendations. It’s not a question of what but how. You need a competent board. How you ensure this is the most important”.

The fact that board members did not want detailed regulations was expected. With recommendations having few details regarding how to perform tasks, their capacity to conform to the Code was enhanced.

The NCGB agreed with the suggestions put forward that recommending a yearly evaluation appeared to treat the board evaluation as a separate task and not as an integrated part of the board’s work.

However, the representatives from the NCGB had some interesting views regarding the wording of the code and the intention of the Code for Practice of Corporate Governance that are worth mentioning.

An important element discussed was how the Norwegian Code should be understood in terms of the wording. As expressed by the representative from the NCGB:

“What is defined as a recommendation is the sentence ‘the board should evaluate its performance and expertise annually’. The text following this sentence does not have.....in a way....any significance in terms of how...it is just....NCGB have no ambition to be exhaustive, that there is only one solutions and that this can be found in the recommendation. So, when the recommendation says ‘should be made available’ does not necessarily mean we say they have a duty to send it to the Nomination Committee. What is actually meant is that if the Nomination Committee asks for it, then....yes it should be available. But we have lengthy discussions, and the words used have been picked carefully.”

Following this argument, whatever the Norwegian Code for Practice of Corporate Governance says about the content of the evaluation -- and to whom it should be communicated -- is not to be paid attention to when performing the board evaluation. The fact that the board performs an evaluation is enough to conform to the Code, regardless of how it is performed. Analysis of my data shows that Norwegian listed companies conducting board evaluations do conform to the wording of the recommendation, although there are some elements recommended in the Norwegian Code that are not complied to, such as assessment of individual board members.

No companies perform individual evaluations. However, the Chairperson communicates elements of the evaluation to the Nomination Committee as recommended by the Norwegian Code for Practice of Corporate Governance.

This research is conducted within a corporate governance context. The wording of the Norwegian Code for Practice of Corporate Governance is assumed to have a stakeholder view as expressed in the introduction of the Code (NUES, 2007:7):

“The Code for Practice is intended to strengthen confidence in listed companies among shareholders, the capital market and other interested parties. It is important that companies enjoy good relationships with society as a whole, and particularly with the stakeholder groups that are affected by their business activities. Companies should therefore pay careful attention to establishing guidelines for their activities that take into account these issues”.

In this context, and as identified in chapter two (section 2.7.3), a board evaluation might contribute to increased accountability towards different stakeholders’ expectations.

One of the suggestions put forward by me was to implement measures in the recommendation to ensure a more comprehensive communication about the board evaluation in the annual report. However, the view expressed by the representatives from NCGB was that the board evaluation is related to the owners, not stakeholders in general as identified through this following quote:

“The recommendation is developed by ten institutional owners. And the discussions we have regarding this are that the recommendations are developed for shareholders, not other stakeholders.”

When putting forward a question about how board evaluations could contribute to accountability towards shareholders the representative for the NCGB answered:

“Well, the board’s accountability towards owners is mainly measured indirectly through the financial results of the company. We can measure whether the companies deliver the profit shareholders want. Accountability through board evaluations is more difficult. We need a board that will perform for us, and we want to ensure they do this. The best way to ensure this, I think, is through recommendations like this. So the ten largest institutional owners are behind the chosen wording of the recommendation. It has been carefully picked, and we have been discussing the wording for six years now to make it as good as possible.”

To the extent that this view represents the views of the entire NCGB, the view is that the recommendation is developed to ensure the interests of shareholders, not other stakeholders. The discussions ended with the following quote which might be representative for the views of the NCGB on this matter:

“One of the things that hit me is that it does matter what is written as a comment to the recommendation. We should be more careful with what we include in the comments to the recommendation”.

6.4.5 Summary of the focus group

The intention of the focus group was to increase the conclusion validity of the research and to discuss the suggested model of board evaluation in Norwegian listed companies developed as a consequence of the field research.

The overall conclusion from the focus group regarding the process of board evaluations is that the perceptions of the participants deviate. This aligns with the conclusion from my research regarding the board evaluation process. The differences between perceptions of the Chairperson and board members as identified in the research regarding the process of board evaluation were also visible in the focus group. While most Chairpersons in the focus group did not necessarily find the conclusions relevant for the board evaluation process they had been part of, the overall perception of the board members was that they found the findings representative for their experience with implemented processes of board evaluation in Norwegian listed companies. This also fits well with the analyses in chapter four and five; Chairpersons appear to be more content with the implemented process, although the overall perception is that board members in general are very content with the existing process of board evaluation. It became clear from the focus group that board evaluations are viewed as a useful mechanism, and board members in general were positive to conducting them. This view is also found in the field research. In addition, the purpose of the evaluation as expressed by the focus group was as general as indicated by the field research.

Based on the analysis of the performed focus group, it can be concluded that the conclusion validity of the research is increased as a consequence of the triangulation.

From the analysis performed in chapter five, it was suggested that the implemented process of board evaluation (the aggregated perceived actual model of board evaluation) is influenced by the approaches of the Chairperson and board members, given that they themselves develop the process of board evaluation. The identified approaches were: lack of motivation, knowledge, time, relevance, and lack of guidelines to support the evaluation process. These approaches were not discussed in the focus group and their validity was thus not confirmed directly.

However, indications given by some of the participants of the focus group suggest that some of the identified approaches fit well with the conclusions made regarding approaches influencing the implemented process of board evaluation in Norwegian listed companies.

Regarding the purpose of discussing the suggested model of board evaluation in Norwegian listed companies, the conclusion from conducting the focus group is that there is a need for a framework to ensure the necessary competence in boards. It was clear from the discussion that perceptions of how the process of board evaluation is conducted, or how it should be conducted, deviated. As indicated in chapter five, the suggested model is based on the findings from the field research, the main purpose being to close the identified gaps between the perceived actual and the theoretical model of board evaluation. The participants representing boards in Norwegian listed companies agreed to a large extent with the suggestion. However, some concern was raised regarding the suggested element of developing job descriptions for individual board members. The concern aired was that this could jeopardize the concept of

boards as teams. It was suggested that the phrasing “job descriptions” should be changed to “role descriptions” to mitigate this.

The main discussion about the suggested model of board evaluation was related to the risk of some of these suggestions leading to the mixing of responsibilities between the board and the Nomination Committee. On the one hand, board members actually conducting the board evaluation expressed the importance of implementing a process contingent to the situation of the company. They felt that this was the main issue in any board evaluation process and saw the usefulness of suggesting that the Chairperson should be more involved in the process of developing a framework for selecting new board members, in addition to being involved in the actual selection process. However, a clear condition for this was that the main responsibility remained with the Nomination Committee. On the other hand, the representatives of the NCGB stressed the importance of the recommendation being based on the principle of independency of the actors of corporate governance without making situational adjustments to fit a specific company. As such, they were categorically opposed to the Chairperson’s involvement in the process of electing board members.

Regarding the suggestions made in the model of board evaluation about the wording of the Norwegian Code for Practice of Corporate Governance, the participants representing boards in Norwegian listed companies did not have any views other than that it is important to keep the wording as general as possible in order to avoid a situation of “ticking boxes”. Representatives for the NCGB agreed that the word “annually” might lead to implications regarding how the process of board evaluations is perceived by boards. Nonetheless, they were more concerned about ensuring that the Norwegian Code for Practice of Corporate Governance represented a framework from which companies could find different solutions than implementing a Code with recommendations that were too exhaustive.

It is clear from the above that by implementing the NCGB in the focus group, another aspect of board evaluations in a corporate governance context not identified through the field research was added. It was identified that there are differences between board members and the representatives of the NCGB regarding how the boards actually conduct evaluations and how the NCGB thought these board evaluations were conducted. In addition, some uncertainty regarding to what extent the commentary supporting the recommendation regarding board evaluation were considered “relevant” was expressed by the NCGB. Based on these observations, it can be questioned whether the process of developing recommendations is sufficient enough to ensure that the recommendations meet the overall purpose of corporate governance in a Norwegian context. It is considered outside the scope of this thesis to discuss this further and is thus left to future research.

6.4.6 Overall conclusions and implications for the suggested model of board evaluation

Based on the discussions of the focus group, it can be concluded that the findings from the triangulation support the findings in the research regarding the implemented board evaluation process in Norwegian listed companies. Moreover, the conclusion validity was increased as a consequence.

Through discussions about the developed model of board evaluation, it was suggested that the word “job description” used in the model be changed to “role description” to ensure that board viewed themselves as collegiums. Although some concern was raised regarding the suggestion that the Chairperson should be more involved in the process of selecting board members, this is kept as a part of the suggested model. Involvement by the Chairperson is considered important, as it assumed to influence the process of board evaluation in Norwegian listed companies, which will lead to greater possibility for the board evaluation process to contribute to enhanced corporate governance.



Chapter 7 - Summary and conclusion

7.1 Introduction

The purpose of this chapter is to summarize my research and the conclusions made from it and to identify possible future research. The summary will be presented in section 7.2. In section 7.3, the conclusions presented and in section 7.4, areas for future research identified.

7.2 Summary of the research process

The overall purpose of this research has been to get a better understanding of board evaluation as a corporate governance mechanism and to develop a model for board evaluation in listed Norwegian companies. Although board evaluations have been an element of corporate governance for the last three decades through recommendations in existing Codes for Corporate Governance, little research has been conducted to increase our understanding of board evaluations as a corporate governance mechanism. As a consequence, the link between the concept of board evaluation and corporate governance theories is under-developed. By conducting empirical research on how board evaluations are performed in boards of Norwegian listed companies, valuable insight into the approaches adopted by Norwegian companies and the factors influencing these approaches has been gained. The field research has further enabled me to develop the concept of board evaluation in a corporate governance context, and thus add to existing theories of corporate governance.

An important purpose of chapter one was to identify the common ground by which the research was conducted and thus should be understood. Given that the research on board evaluation is conducted within a corporate governance context, it was important to define and discuss corporate governance, the board as a corporate governance mechanism and the concept of board evaluation within this context.

We saw that the board of directors' importance in a corporate governance context has been changing. The purpose of their existence could be seen, from a legalistic perspective, as merely being an ornament on the corporate Christmas tree (Mace, 1971) to being viewed as an important asset for the organisation with the potential to contribute to a sustainable competitive advantage (Huse, et al., 2005; Minichilli, et al., 2007b). It was further identified that there was some ambiguity related to how corporate governance should be understood and thus defined, and we saw that the purpose of corporate governance was viewed differently with regard to theoretical and a practical perspectives. However, it was identified that there appears to be consensus that corporate governance should be defined as "the system by which companies are directed and controlled" (Cadbury, 1992), and that the purpose of corporate governance as identified by the OECD (2004:13) "to ensure economic growth" represented the overall objective. It was assumed that economic growth should be understood in the context of the society as a whole, not only for shareholders, and that this was achieved by pursuing objectives that are in the interest of the company and its shareholders.

In a corporate governance context, board evaluation was defined as an assessment of actual performance against expected performance (Minichilli, et al., 2007b), and it was established that board evaluations were considered important in assessing the effectiveness of boards (Gabrielsson & Huse, 2005; Ingley & Van der Walt, 2002; Leblanc, 2005b-a; Leblanc & Schwartz, 2007; Long, 2006; Minichilli, et al., 2007b; Nicholson & Kiel, 2004).

Effectiveness is considered important in a corporate governance context, and a lot of research has been performed to establish to what extent there is a causal relationship between implemented corporate governance measures and board effectiveness where financial performance of the company is often used as a proxy for effectiveness. Some of the models used in this research were presented and discussed. However, given the purpose and the exploratory nature of the research, these models were rejected and the model upon which this research is based presented.

Board effectiveness has, in this research, been defined within the company perspective. It was identified -- from the definition of corporate governance provided by the OECD -- that it ensured that directors and their defined tasks and processes contribute to adding value, thus enabling the company to reach the goals it sets. From this it was established that board evaluation could be used as a mechanism to assess board effectiveness, as it should assess actual tasks in relation to expected tasks in the context of board composition, board structure and board processes. Given that one element of board effectiveness is related to the tasks boards perform, the thesis continued by discussing board tasks in terms of different corporate governance theories. Hung's typology was used to explain the role of the board, according to the different corporate governance theories, and what these roles constituted in terms of tasks. It was established that the most common way of categorizing tasks is as control tasks or service tasks, and that these tasks could be labelled as either monitoring or directing. From this it was established that no traditional corporate governance theory has been developed that captures the different roles boards have and the tasks they perform to that end. From a board effectiveness perspective, an important aspect to consider is how these tasks are performed. Relevant behavioural perspectives and theories were discussed in this context.

To meet the purpose of the research, a multi-theoretical approach was adopted. Corporate governance theories on the grounds that they may explain why companies perform board evaluations and behavioural theories on the grounds that they might explain how board evaluations are performed.

Most of the existing literature on board evaluation is conceptual. However, it does not attempt to link the concept of board evaluation to any corporate governance theory. The empirical research that has been performed on board evaluation is descriptive, with the purpose of establishing whether board evaluations are performed (Conger & Lawler, 2002; Kazanjian, 2000; Shultz, 2009; Stybel & Peabody, 2005), or whether the board evaluation is performed as an assessment of the board collectively or as an assessment of individual board members (Conger, et al., 1998; Edwards & Shultz, 2008; Graf, 2007; Hoffman, 2003). No research has been performed to increase our understanding of board evaluation by looking into the processes implemented by the board. Given the research gap, the literature review was used

for building a framework for collecting data in order to develop a model of board evaluation in Norwegian listed companies. The literature on board evaluation was placed into three categories for the purpose of the review: the practical, the normative and the academic literature. The practical literature focuses on the importance of board evaluations and on how they should be done. The normative literature was represented by the Codes for Practice of Corporate Governance. The characteristic of this literature was that it recommends that board evaluations are performed, but give less guidance with regard to what they are, and how they should be performed. The academic literature described what board evaluation are, the different elements of them, how they can be conducted and their possible effects. It became clear from the literature review that most of the existing literature focused on specific elements of a board evaluation. Only two contributions viewed board evaluations as a process (Kiel & Nicholson, 2005; Minichilli, et al., 2007b). These two articles became important elements in designing the framework for collecting data and in developing the model of board evaluation for Norwegian listed companies.

The choices related to methodology were explained and discussed through the use of Silverman's seven levels of analysis. The paradigm of choice is social constructionism and the research is exploratory in nature. Given this, and the fact that the concept of board evaluation is under-developed in terms of linking it to corporate governance theories, an inductive approach was chosen. The methodology choices possible in the conduct of the research were discussed and it was decided on a multi-method approach. Case studies were used to collect data and a focus group would be used to increase conclusion validity and to discuss the recommendations made as a consequence of the field research. The case design chosen in this research uses inductive theoretical motivated multiple-case studies with the aim of adding to the concept of board evaluation. Multiple case studies were chosen for their ability to generalize from the findings. Given that the unit of analysis is the process of board evaluation, the cases selected may be defined as similar, given that the boards included in this research all performed board evaluations. By performing case studies of several board evaluation processes, it was possible to compare the different processes and to make some generalisations. By interviewing the Chairperson, the employee-elected board member, and the independent board member (definition given by the Norwegian Code) in each board, different perspectives of the board evaluation process could be identified, enabling analysis to be performed both at company level but also across companies.

A qualitative approach was decided for data collection, collecting both primary and secondary data. The qualitative approach was chosen based on its ability to increase the richness of the data, and the possibility it thus gave to meet the purpose of the research. The primary data was collected through the use of standardised open-ended questionnaires. This method was chosen based on its flexibility regarding the possibility for interviewees to elaborate and ask follow-up questions, and thus increase the above mentioned richness of data. At the same time, this method made it possible to conduct the interview in a structured manner, ensuring the data could be compared and contrasted. The secondary data collected was the evaluation form the boards used in the board evaluation process. The developed questionnaire was pilot tested in

order to quality ensure the questions, to decide on the needed level of information that should be supplied to the interviewees before the interview was performed, and to determine the appropriateness of the interviewer's presence during opening comments and her general conduct throughout the interview.

The sampling procedure used was influenced by the fact that the unit of analysis was the board evaluation process. Because of this, it was important to select companies that performed board evaluations, although it was acknowledged that this sampling procedure would limit the possibility of exploring other important elements and aspects related to the concept of board evaluation. The sampling frame used was comprised of the 25 largest listed companies in Norway in terms of market capitalisation as of 31.12.2007, representing 82.2 % of the market value at that time. The sampling frame was selected based on the assumption that these companies had greater capacity and motivation to comply with the Norwegian Code regarding board evaluation. The basis for this assumption was dispersed ownership, high liquidity in the share, high attention from financial analysts, and the fact that the Norwegian Government was a large owner in many of these companies. Financial companies were taken out from the sample frame on the basis of the special laws and regulations applicable for these companies.

Contribution by companies was ensured through a close follow up of the invitation letters sent out to the companies and by ensuring the Chairperson in each company had agreed to contribute before approaching the other board members. The sampling process was hampered by the fact that the letter of invitation (August 2008) coincided with the beginning of the global financial crises, but nine companies agreed to be involved in the research. The interviews were performed in the period between September 2008 and February 2009.

Analysis

The coding of the data was done by using NVivo 8.

Table 4.10.1 “Overview of level of analysis” gave an overview of the different analyses performed.

Analysis section 4.2 – 4.11	Company	S1	S2	S3	S4	S5	S6	S7	S8	S9
	Input									
Analysis section 4.12, 4.13 and Chapter 5	Chairperson	X	X	X	X	X	X	X	X	X
	Independent board member	X	X	X	XX	X	X	X	X	X
	Employee-elected board member	X	X	X	X	X	X	X		X
	Owner representative						X			
	Evaluation Form	X	X	X		X	X	X	X	X

Analyses of individual companies

By interviewing, on average, three board members in each board and asking questions related to existing and preferred board evaluation processes, it was possible to identify interviewees’ perceived models of board evaluation. Through these identifications, gap analyses of interviewees’ perceived models of board evaluation could be performed, and identification of reasons why they existed was made possible.

Further analyses were performed to identify to what extent a preferred model of board evaluation could be developed. Through the analysis of the interviewees’ perceived models of board evaluations and the evaluation form used in the evaluation process, a perceived actual model of board evaluation per company could be identified.

Analyses at aggregated level

Gap analysis related to interviewees’ perceived models of board evaluations was performed at an aggregated level with the intent of making an analysis that applied to all companies in the sample. The data collected made analysis across companies possible, both at an individual level by comparing the different categories of board members and at board level. At individual board member level, analysis showed that there were similar gaps between the perceived model, according to the Chairperson, and the different categories of board members (independent board member and employee-elected board member). Some suggestions regarding these gaps at individual board member level were proposed. However, given that the

interviewees were granted confidentiality, further analysis into possible reasons for these gaps at individual level were not performed.

Aggregated gap analysis at board level showed that there are gaps between the interviewees' perceived model of board evaluation in all the elements of the board evaluation process. These gaps were discussed and possible reasons for their existence proposed. The result of this analysis was used as input in developing an aggregated perceived actual model of board evaluation in Norwegian listed companies and in identifying factors influencing it. An important assumption was that the aggregated perceived actual model of board evaluation is influenced by Chairpersons' and board members' approaches. The analysis performed thus included elements regarding these approaches.

The analysis also identified an aggregated preferred model of board evaluation. This model was analysed to identify to what extent there was a gap between this model and the aggregated perceived actual model.

The aggregated perceived actual and preferred models of board evaluation were used as input for a suggested model of board evaluation in Norwegian listed companies. Gap analysis was performed in the process between these two models and a theoretical model of board evaluation developed from the literature review.

7.3 The result

Below is a summary of the result of the above mentioned analysis. This summary is split in two. In section 7.3.1 the implemented process of board evaluation and approaches influencing it are presented. In section 7.3.2, the final suggested model of board evaluation based on the field research will be presented.

7.3.1 The board evaluation process

The analysis shows that the implemented process of board evaluation in Norwegian listed companies can be categorised as a process which lacks structure and involvement. It can be argued that the implemented process is structured in the sense that it is performed once a year and that it follows some specific procedures as to how it is conducted. The main reason for this conclusion is, however, that the implemented process is not designed to meet the overall purpose of board evaluation, i.e., to assess actual performance against expected performance. An important aspect of deciding on a purpose is to identify the expected level of performance within the context of the identified purpose. It was clear from the analysis that no attempt is made by boards to identify a clear purpose from which an expected level of performance could be specified. Further, the analysis shows that the different board members within each company have different perceptions regarding the purpose of the board evaluation, supporting the conclusion that boards fail to identify a clear purpose. Although the boards identified several purposes of the board evaluation, they were too vague in terms of implementing a system to meet the purpose, or the purposes identified were multiple and to some extent conflicting, which

made it impossible to implement a suitable system of board evaluation. The result was that there is no fit between the system and the purpose of board evaluation.

The process of board evaluation cannot be viewed as a team effort. The overall responsibility of the board evaluation is considered by board members to be the Chairperson's, a responsibility acknowledged by him. This has a major impact on the implemented process. The choices made regarding the process are to a large extent decided by the Chairperson or the people he chooses to involve and are not discussed with the board. As a general rule, board members' involvement in the process is to respond to the questions or statements given in the board evaluation. A consequence of this is that they have little knowledge about the process or the rationale behind the choices made regarding the process. Despite this, analysis shows that board members are content with the implemented process of board evaluation, given that their perceived actual model of board evaluation to a large extent aligns with their preferred model of board evaluation.

The implemented process of board evaluations in Norwegian listed companies is influenced by the approaches of individual board members. The main approach influencing the board evaluation process is the passivity of Chairpersons and board members. The Chairpersons passive approach was identified through their lack of involvement in implementing a process which could meet the overall purpose of board evaluation in corporate governance context, i.e., to enhance board performance. Although the Chairperson assumes responsibility for the board evaluation, the implemented process is influenced by other factors than ensuring enhanced performance. This passive approach is influenced by lack of motivation. Ensuring the existence of required competence is, by Chairpersons, considered to be the responsibility of the Nomination Committee, not something that is ensured through internal development where areas for improvement can be identified through board evaluations.

Lack of knowledge also influences the implemented process. Board evaluations are a recent development in a Norwegian corporate governance context, and the developed practice is influenced by this. Boards do not have enough knowledge about board evaluation to implement a process that will contribute to enhanced corporate governance. A reason for this might be, as identified through the literature review, that the concept of board evaluation is under-developed. Lack of research will influence the possibility for this area of corporate governance to be developed. Through this research, it has been suggested that the Norwegian Code for Practice of Corporate Governance does not give adequate guidance regarding how to practice these evaluations. All this can be assumed to have an influence on the existing practice of board evaluations.

The element of time constraints is also considered to influence the passive approach of the Chairperson. The ever increasing workload for boards in a corporate governance context is possibly influencing the process of board evaluation. Within the context of the recommendations given by the Norwegian Code for Practice of Corporate governance, Chairpersons want to implement a simple, short and inexpensive process.

The passive approach of board members can be explained by lack of knowledge and lack of relevance. As indicated above, the lack of knowledge about board evaluation hampers the

possibility for board evaluations to contribute to enhanced corporate governance. An important reason for this is that this lack of knowledge appears to decrease board members' capacity to influence board evaluation processes. Lack of relevance can be related to lack of knowledge. One aspect of this refers to the implemented board evaluation process.

The process of board evaluation and board members' passive approach may be influenced by the fact that the Norwegian Code for Practice of Corporate Governance recommends that the result of the board evaluation should be made available to the Nomination Committee. This recommendation is practiced by the Chairperson. Implied in this is that the result of the board evaluation is used in the nomination process. A consequence of this may be that board members become passive. Another element regarding lack of relevance is that board members seem to link board evaluations with dealing with, or preventing, a conflict instead of enhancing board performance in general. In a situation where conflicts do not exist, their involvement is not necessary. Finally, my research suggests that board members' passive approach regarding developing the process is a result of the modality used. Given that boards, to a large extent, use an individual evaluation of boards collectively, board members have the ability to influence the end result of the board evaluation. Given that this is considered important, involvement in other parts of the process is not necessary.

Based on the findings, it can be concluded that board evaluations in Norwegian listed companies are performed to conform to the Norwegian Code for Practice of Corporate Governance. The following statement made by one of the Chairpersons may be used to illustrate this:

"We feel we have an obligation to do that, because it is stated in the Norwegian Code for Practice of Corporate Governance. And if we don't do it, we must come up with a good explanation as to why not. God knows what that explanation would look like."

Based on the lack of a structured process, the purpose of the board evaluation appears to be the process itself. Given that the board members are content with the process despite their lack of involvement in it, the implication is that board evaluations have become institutionalized. The following statement may be used to illustrate this:

"I don't know why they chose this solution. I don't know how long they have evaluated this way; I just know they had it before I joined."

Instead of being used as a mechanism to enhance board performance, it becomes a congratulatory event that is performed once a year. The following statement by one of the board members may be used to illustrate this:

"The first things we go over are, why are we doing so well? Are we that good?"

This research adds to the concept of board evaluation in a corporate governance context. Empirical research into the process of board evaluations implemented in boards of Norwegian listed companies has given valuable insight into how board evaluations are performed and their

role in a corporate governance context. The conclusion from the research is that the concept of board evaluation can be explained in terms of the new institutional theory (Meyer & Rowan, 1977b). This theory argues that organisations are structured by phenomena in their environment and tend to become isomorphic with them. In this context, the structures and processes legitimated by the environment are viewed as sensible “because it implies responsible management, pleases external constituencies, and avoids potential claims of negligence if something goes wrong (Eisenhart, 1988) cited from (Judge & Zeithaml, 1992:2). From the research it was concluded that boards perform board evaluations to conform to the Norwegian Code. This is defined by the institutional theory as coercive isomorphism (Mintzberg, et al., 1998), describing pressure for companies to conform, exerted through standards and regulations.

From the literature review, it was identified that the pressure to conduct board evaluation was the result of increased shareholder activism (Long, 2006; Minichilli, et al., 2007b; van der Walt & Ingley, 2001). The participants from the Norwegian Corporate Governance Board (NCGB) present at the focus group confirmed the view when stressing the importance of the Norwegian Code for Practice of Corporate Governance being developed by institutional investors, for shareholders. The research shows that most Norwegian listed companies implemented board evaluations as a response to the Norwegian Code for Practice of Corporate Governance recommending that that they be performed. The research shows, however, that the implemented process of board evaluation appears to be sub-optimal. Many reasons were identified, one being that the Norwegian Code for Practice of Corporate Governance does not offer the needed guidelines to companies performing board evaluations.

7.3.2 The suggested model of board evaluation for Norwegian listed companies

Based on the field research, a model for board evaluation in Norwegian listed companies was suggested that will, if implemented, enhance corporate governance in a Norwegian context. The suggested model was discussed in the focus group and, to the extent their comments added to the developed mode, their contributions have been included in the final suggested model of board evaluation for Norwegian listed companies:

7.3.2.1 Input to increase board effectiveness through board evaluations:

- Board evaluation purpose(s) should be linked to the goals of the company, and expected performance should be stated clearly within this context, enabling actual performance to be assessed against expected performance.
- The process of the evaluation should be linked to the strategic work of the board. In this forward-looking strategic process, clear goals of what is expected of the board and its members may be established.

- Measures should be taken to ensure that all different elements regarding boards (composition/task/processes/structure) are included in an evaluation within this framework of expected performance, including the board sub-committees.
- If the board evaluation includes multiple purposes, measures should be taken to ensure that the system of board evaluation meets the different purposes.
- An individual appraisal of all board members should be performed regularly. Regardless of the evaluator, measures should be taken to ensure an objective and relevant appraisal is performed related to competence, structure and processes.
- Role descriptions should be developed for all existing board members, contributing to an increased understanding of expected performance, and which can be used as a framework for individual board member appraisals.
- In the event that gaps between boards' expected and actual performance are identified, a follow-up plan should be developed. To increase board members' involvement and awareness, the follow-plan should be developed with board members' input. Responsibility for the developed follow-up plan -- including initiating measures to eliminate the identified gaps -- should be given to one or two board members to ensure a continuous process.
- In the event gaps between actual and expected performance are identified for individual board members, a follow-up plan should be developed by the evaluator and the individual board member. Measures should be taken to ensure that proper initiatives are taken to close the identified gap(s), and to ensure that the initiated procedures were effective in closing the identified gap(s).
- Role descriptions should be developed for possible future board members. These descriptions should specify the needed competency a possible candidate should have and what will be expected of the right candidate. The Chairperson should have the overall responsibility for developing a role description which can be used by the Nomination Committee in their search for candidates. The developed role description should be used as the basis for an advertisement, and made public.
- The Chairperson should be involved by the Nomination Committee in interviewing the possible candidates, as he has the knowledge to consider the candidate in light of the set competency requirements
- New and existing board members must receive the necessary training to enable them to attain the competence necessary to perform according to expectations. This must

include training that is related to the company, but also training relevant for the board's work in general.

- Mentoring arrangements should be implemented to ensure board members have the necessary backing to perform their best for the company.

7.3.2.2 Input to the Norwegian Code for Practice of Corporate Governance:

To increase the possibility for board evaluations to contribute to enhanced board effectiveness, the following measures are suggested regarding the wording of the code to ensure clear guidance for companies in their processes of board evaluations.

- Instead of using the word annually, it could indicate that the board evaluation should be performed regularly to stress that an evaluation is an integrated part of the board's work. As an alternative, the word annually may be kept, but change the wording related to who the result should be communicated to. As of now, the word "annually" together with the recommendation that the result should be communicated to the Nomination Committee suggests that the evaluation should be used in the nomination process. This decreases the board evaluation's ability to enhance board effectiveness.
- By recommending that the result of the board evaluation should be communicated to the Nomination Committee, the Code favours information being given to owners (represented on the Nomination Committee) at the expense of other shareholders and stakeholders in general. One suggestion is to take out the sentence. By doing this, the Norwegian Code no longer favours any stakeholders regarding the evaluation process. In addition, this might contribute to the board evaluation process focusing on different elements of board effectiveness, not only elements related to board composition.
- From an accountability perspective, stakeholders in general should be informed about the process. The Norwegian Code leaves the choice regarding communication to the companies. The Norwegian Code should include a recommendation that stakeholders should be informed about the board evaluation process. Through this, increased accountability can be ensured, both for the board collectively, but also for individual board members. This again may contribute to increased confidence among companies and their stakeholders and may lead to greater value creation

7.4 Areas for future research

Given the level of empirical research within this area of corporate governance, the possibilities for future research are extensive. Some possibilities regarding future research were identified through this process and may be seen as a continuation of this research process.

Future research may be conducted at individual board member level to gain a better understanding of why the gaps between individual board members' perceived models of board evaluation exist. This would give further knowledge about the reasons for existing gaps. On the basis of this knowledge, suggestions as to how to close the gaps at an individual board member level could be proposed.

This research identifies the Nomination Committee as a recipient of the board evaluation. However, the content and form of the information given to the Nomination Committee and to what extent the Nomination Committee uses the information in its process has not been established. Further research into the role and processes of the Nomination Committee will thus add to our understanding of board evaluation in a corporate governance context.

The research established that the Norwegian Code for Practice of Corporate Governance was insufficient in terms of providing the necessary guidance from which companies might establish a board evaluation process with the capacity to enhance corporate governance. A question was also put as to what extent the established procedures for developing recommendations were good enough from a corporate governance context. Further research into the process of developing recommendations would increase our understanding of corporate governance and provide insight into the possibility of developing recommendations with the capacity to enhance corporate governance in a Norwegian context.

In more general terms, the findings in this research may be used to develop testable hypotheses related to the relationship between board evaluations and board effectiveness. Given the lack of research, a useful area of future research would be to apply this research to other countries. This would enable comparisons to be made and further generalisations to be extrapolated. One possibility is to apply the research approach in this research to other constituencies. Although corporate governance structures, to some extent, are different from one country to another, many elements are identical and comparisons can be performed. One problem with such an approach is, of course, gaining access to boards. However, in discussions at conferences, colleagues from other Nordic countries have expressed an interest in applying this approach to their research and they have the possibility to do so. Another approach would be to develop testable hypotheses that could be applied to secondary, observable data.

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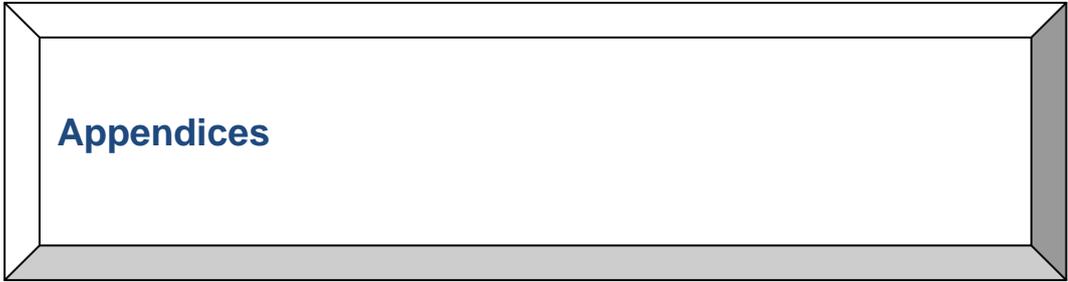
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Appendices

Appendix 3.1 Letter to sampled companies

Address

Dear

My name is Janicke Rasmussen. I am a Senior Lecturer in Accounting at the Norwegian School of Management (BI), and I am currently studying for my PhD at Cass Business School in London. My area of research is corporate governance and I am specifically investigating how boards carry out an annual evaluation of its performance and expertise, since international markets are increasing their attention to these board evaluations, as they are viewed as an important part of the governing of companies.

Preliminary findings related to Norwegian listed companies' annual reports shows that most Norwegian companies perform board evaluations. However, knowledge about how these evaluations are done and to what extent the Norwegian codes reflect practice, are scarce. With your contribution, I hope to be able to provide answers to this question.

All contributions will be treated with full confidentiality, and results will be reported in aggregate format. If you so wish, your company will receive an executive summary of the research results.

The research will be conducted by means of me interviewing several of your board members. These are: You, an independent director, an owner representative and an employee-elected director. Preferably one of the directors should be a woman. I am aware that some directors might represent more than one of these groups.

Based on pilot testing my interview schedule, the interview will last for between one to one and a half hours, and I am hoping to start these interviews in late August and complete them by November 2008.

If, for some reason, you feel your company does not perform board evaluation, I would still like, if possible, to interview you to gain an understanding of the rationale behind a decision not to perform an evaluation since this would be an important element of our understanding of corporate governance.

At the end of week 34, I will get in contact with you to discuss details related to a participation in this research.

Thanking you in anticipation of a favourable response,
Yours sincerely

Janicke Rasmussen

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Appendix 3.2 Aid memoire

Appendix 3.2 Aid memoire

1. “Why”

Related to previous board evaluation

Which of the following statement(s) do you think best describe the purpose of your board evaluation?

The main objective is to ensure that the goals set by the board are achieved (accountability).

The main objective is to secure openness related to the boards work, and thus secure and enhance trust between the board and stakeholders (transparency)

The main objective is to develop and train board members

The main objective is to provide information to the nomination committee by which they can evaluate the work done by the board.

Other(s)? Please describe _____

How is the objective of the board evaluation communicated to the board members involved?

To what extent can board members influence the objective of the evaluation?

Related to future board evaluations

Does the set purpose of board evaluation align with your preferences regarding board evaluation?

If no, what objective(s) should be set for the board evaluation?

2. “For whom”

Related to previous board evaluations:

2.1 Before conducting the board evaluation, does the board discuss/decide on who the results should be communicated to?

- The Board itself?
- The nomination committee?
- Owners, banks, agencies, employees (External stakeholders)?
- Management, CEO, employees (internal stakeholders)

2.2 What factors influence the decision?

To what extent can individual board members influence the decision about who the result should be communicated to?

Related to future board evaluation:

To what extent does the decided approach regarding communicating the evaluation align with how you prefer the information should be communicated?

Appendix 3.2 Aid memoire

Which effect would a changed communication have on your approach to board evaluation?

3. “What”

Related to the previous board evaluation(s) conducted:

What (overall) best describes the last board evaluation (it is possible to indicate more than one)?

- The board evaluation looked at the board activities during the year, and the results of these activities were measured against what the board had planned. (*accountability*)
- The board evaluation focused on benchmarking the boards structure and work against national laws and codes. (*transparency/accountability*)
- The board evaluation looked at the board culture/processes to establish to what degree the processes contribute to value creation. (Do the board work as a team – ensuring cohesiveness/creativity/openness and generosity/critical and questioning attitude/preparation, participation and commitment) (*develop and train board members and boards*)
- The evaluation looked at the structure of the board to establish if it support the work of the board. (This may include evaluation of sub-committees and their work/the size of the board/board meeting structure/CEO and board instructions/ leadership style of chairperson) (*develop and train board and board members/structure and leadership style*)
- Evaluation looked at to what extent the board members (their professional background, their competencies/ personal characteristics) align with strategy of the company. (*Board membership/Nomination committee*)
- Others? please specify

How is the above mentioned focus measured? Give some examples of questions asked to illustrate how the evaluation was carried out.

Related to future board evaluations:

- What do you think a board evaluation should incorporate?
Why is this focus important?

4. “Who”

Related to the previous board evaluation conducted:

Who had the responsibility for conducting the board evaluation?

- Chairperson
- The Board collectively
- Board committee (corporate governance committee / audit committee/remuneration committee)
- The Nomination Committee
- An External agency/ consultant
- Combination of the above? Please state _____

What was the main reason behind choosing this solution?

What measures are taken to ensure the absence of conflict of interest between the purpose of the evaluation and who is responsible for the evaluation?

Related to future board evaluations:

Would you prefer another approach when deciding who to conduct the board evaluation?

Explain

5. “How”

Related to the previous board evaluation conducted:

- How was this evaluation conducted?
- Open discussion between the board members?
- Self-evaluation of individual members?
- Self-evaluation at board level?
- Peer-evaluation of individual members?
- “External” evaluation of individual board members
- “External” evaluation of the board collectively
- Other? Please explain _____

What was the reason for choosing this method?

Does the chosen method grant any form of anonymity? How?

Does the board have any plans related to following up the results of the evaluation?

Related to future board evaluations:

To what extent does the chosen method of board evaluation reflect your preferred method of evaluation?

In what way does the chosen method influence your approach toward board evaluation?

Does any “plan of action” reflect your preferences regarding how to best close gaps?

6. “When”

Related to previous board evaluations:

6.1 Generally, when is board evaluations conducted?

- Once a year
- Once every 3. Years
- Other? Please explain

How much time is normally used to conduct board evaluations?

When is board evaluations performed?

- At separate board meetings?
- As part of the board meeting?

Related to future board evaluation

Do you agree with the chosen approach regarding when to evaluate or do you think another approach would be better?

Appendix 3.3 Information sent out to interviewees

Scheduled interview board evaluation

Enclosed you will find the questions I will ask/we will discuss when we meet. I kindly ask you consider the questions before our meeting.

How the questions are organized and put are closely related to the research questions in my dissertation. You are of course most welcome to ask me about this when we meet.

With your permission, I will bring a digital tape recorded to the interview. The reasoning behind this is to ensure a correct presentation of the interview for analysis purpose.

Your contribution will be confidential, and the vma-file not available to other than me.

Do you have any questions regarding my interview, please let me know before, or during the interview.

Kind regards

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Appendix 3.4 Coding summary

Why - Perceived purpose of board evaluation
Reporting
Recruitment evaluation
Development evaluation
Combination of Recruitment and Development
Board effectiveness
Why - Preferred purpose of board evaluation
Preferred purpose is the same as actual purpose
Preferred purpose is not the same as actual purpose
Why - Involvement in deciding
Purpose not discussed
Purpose discussed
For whom - Intended communication of result
External
Uncertain about who the result is communicated to
Internal and External communication
Internal
For whom - Preferred communication
Preferred communication is the same as actual communication
Preferred communication is not the same as actual communication
For whom - Involvement in deciding
Involved
Not involved
Mode of communication
Written
Oral
Uncertain regarding mode of communication

What - Perceived content of board evaluation

Reporting Evaluation

Developing Evaluation

Board Role

Board processes

Boards input from others

Recruiting Evaluation

Competency

Chair Person

Board Member relationship

Board member independence

Preparation and contribution

Board's evaluation

Board effectiveness

What - Preferred content of board evaluation

Preferred content is the same as actual content

Preferred content is not the same as actual content

What - Involvement in deciding

Involved in deciding

Not involved in deciding

Who - Perceived Evaluator

External agent

Board Committee

Nomination committee

Combination of board and management

The Board Collectively

Uncertainty about who is the evaluator

Chairperson

Who - Preferred Evaluator

The preferred person is the same as actual person

Preferred person is not the same as actual person

Who - Involvement in deciding the evaluator
rationale behind the choice is known
Rationale behind this choice is not known
How - Perceived method of evaluation
Evaluating the Board Collectively
Evaluation of the individual board members
Mainly Quantitative
Mainly qualitative
Clear secondary goal attainment are set
Clear secondary goal attainment not set
How - Preferred modality
Preferred modality is same as actual modality
Preferred modality is not the same as actual modality
How - Involvement in deciding
Reason for choice is known
Reason for choice is not known
How - discussions of the result
Discussions
Discussion - Length
Up to 1 hour
Between one and two hours
More than two hours
Discussion - Setting
As part of a board meeting
At a separate board meeting
When - Timing of Board Evaluation
Once a year
Timing is related to the work of NC
Timing is related to annual reporting
Factors related to timing is not known

When - Preferred timing of board evaluation
--

Preferred timing is identical to actual timing
--

Preferred timing is not identical to actual timing
--

Follow-up - Perceived

Internal follow-up

Input

Board processes

External follow-up

Plan of action regarding follow-up existis
--

No follow-up plan exists

Follow - up (Preferred)

Preferred follow-up is the same as actual follow-up

Preferred follow-up is not the same as actual follow-up

Appendix 6.1 Letter sent to participants of focus group

Breakfast meeting at BI Monday 25th January 2010 between 0830 and 1030 in Room A2-040

Thank you very much for agreeing to be part of this meeting. As a preparation this letter is sent out to the participants. The purpose of this letter is to give you some information on the background and purpose of the meeting, enabling you as participant to get an understanding of the process of the meeting, including your role.

Background for the meeting

As part of the PhD I am currently undertaking at Cass Business School in London, I am carrying out a research project on how board evaluations are conducted in Norwegian Listed companies. The purpose of this research is to get a better understanding of the concept of board evaluations, and whether it (as assumed) contributes to enhanced corporate governance through increased board effectiveness. Details regarding the research including my findings and the recommendations proposed as a result are enclosed. Although a brief presentation of the research will be given at the beginning of the meeting scheduled for 25th January at BI room A2-040.

The purpose of the meeting

There are two purposes for this meeting. One is to validate the conclusions of my findings in this research; the second is to discuss the recommendation put forward as a consequence of the findings in this research. Twelve from diverse backgrounds and different interest in this research have been invited. Three persons have been part of the research; six persons have not been part of the research, but they have experience on board evaluation through their Directorships in listed companies. Two people represent the NCGB, in charge of developing the Code of Practice of Corporate Governance for Norwegian listed companies, and one represents the external consultants offering the conduct of board evaluation as part of their services.

The structure of the meeting

After a short presentation of my research and the recommendations I put forward, some questions will be presented for discussion with the group (see below). Most of the time available will be used to discuss these questions with the attendants. The views of the participants at this breakfast meeting will be included in the final conclusions put forward in the research.

Practicalities

After reading the detail of the finding, and the recommendation, I ask you to reflect on the following questions as identified below.

The questions are clustered under three categories:

- Elements related to the process of board evaluation as described in the research compared to your experience of board evaluation.
- Elements related to the suggestions proposed in the research to enhance the possibility for board evaluation to contribute to enhanced corporate governance.

- Elements related to the existing recommendations regarding board evaluation (developed by the NCGB).

A. Elements related to the process of board evaluation as described in the research:

1. Based on your experience on board evaluation, in general terms, do you recognize the findings in this research? If not, what specifically do you not recognize?
2. Which elements you specifically recognize, and which element are least identical to the situation in which you have experience?
3. Are there elements related to your experience of board evaluation that you think may add to the findings in this research?
4. What do you think the reasons are for the approach identified in Norwegian listed companies?

B. Elements related to the suggestions proposed in the research to enhance the possibility to contribute to enhanced corporate governance (through increased board effectiveness)

5. Looking at the suggestions made regarding how board evaluations can enhance corporate governance in a Norwegian context, please comment on these suggestions in terms of your thoughts on their ability to meet this purpose.
6. Do you have any other suggestions as to how the purpose of enhanced corporate governance through board evaluations can be met?

C. Elements related to the existing recommendations regarding board evaluation as developed by the NCGB.

7. Looking at the suggestions made regarding how the recommendation can contribute to meet the purpose of enhanced corporate governance through board evaluations. What are your comments regarding these suggestions?
8. Do you have other suggestions regarding the Code of Practice of Corporate Governance which you think would be helpful for companies in their practice of corporate governance?

To ensure the accuracy of the views you put forward in the discussion, the use of a digital tape recorder is necessary. However, any views presented by individual participants will be treated as anonymous.

If you have any questions regarding this letter, or you wish to discuss the meeting with me, please do not hesitate to contact me.

I look forward to seeing you on the 25th of January.

Best wishes

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Appendix 6.2 Information about the study

The study

The purpose of the study is to get a better understanding of how board evaluations are carried out in Norwegian listed companies. Board evaluations are recommended in the Norwegian Code of Practice of Corporate Governance, and thus it is assumed that they have the ability to enhance corporate governance through increased board effectiveness. Although listed companies to a large extent conduct board evaluations transparency related to board evaluations are low, and this research aim to increase our understanding of board evaluations in a Norwegian context.

Methodology

The study was performed as multiple case studies in 9 large listed companies in Norway. The main data was collected interviewing 3 board members in each company. The three interviewed were:

- The Chairperson
- The employee-elected board member
- The board member defined as “independent” by the Norwegian Code of Practice.

The secondary data collected were the evaluation forms used by the companies in their board evaluation.

The data was collected by interviewing the board members separately, asking them the same questions.

By interviewing different board members from the same board, I was able to perform analysis on how the different participants of the same evaluation perceived the implemented process.

Appendix 6.2 continued

Discussion of the result

Based on the analysis at company level and across companies, a perceived actual model (based on the views of the Chairperson) of board evaluation across companies was developed, which may represent the approach of Norwegian Listed companies regarding board evaluation:

Element	Board evaluation
	Formal and written
"Why" Purpose	No clear purpose of the board evaluation.
"For Whom" Recipients of the board evaluation	The Board is the main recipients, while the Nomination Committee is presented with parts of the evaluation through the Chairperson
"For whom" How the result is presented	The Board is presented with a summary of the evaluation result, while the Nomination Committee is either given a summary of the result, or a summary with conclusions based on the board's discussions. In addition, the Nomination Committee always gets a summary of how the boards work through the Chairperson in his meeting with the Committee.
"What"	Contents are divided between elements related to board evaluation and board's evaluation. There are no clear connection between content and purpose. I.e. the content appears to have been development with no basis in the purpose.
"Who"	Most evaluations performed by internal (Chairperson or Chair and committee)
"How"	Most evaluations are quantitative surveys. They are performed as self-evaluations of boards collectively, not an evaluation of individual board members. The sub-committees of the board are not evaluated
"How" discussions	The result and possible consequences are discussed at a board meeting between 1-2 hours
"When"	Board evaluations are performed once a year
"Follow-up" Internally	No structured follow-up of the result. Any follow-up is left to the individual Director
"Follow-up" externally	Possible follow-up is initiated by the Nomination Committee

Details regarding the finding:

- **The Chairperson is the person with the overall responsibility of the evaluation process.** Many of the decisions regarding the process are decided by him. However, when the process is delegated to an external (such as a consultant), the Chairperson leave decisions regarding the process to this person.

- **No clear purpose** of the evaluation has been identified. There appears to be multiple purposes, but not one of them is primary. Typically the perceived purpose according to the Chairperson is to give input to the Nomination Committee, while the board members discuss elements related to internal development of the board, including team work as important. The Boards does not discuss or agree on any purpose of the board evaluation before the process is initiated.
- Board members lack knowledge regarding the ultimate recipient of the evaluation result, and in **what form** the result is communicated. Most board members assume the board itself is the main recipient, while the Chairperson perceives the board AND the Nomination Committee to be the main recipients.
- The general rule is that the boards are evaluated collectively, performed as self-evaluations. Individual evaluations are not common. Evaluations of sub-committees are not performed. In addition, little evaluation of the Chairperson is performed in these board evaluations.
- **Board members are not involved in the process of board evaluation other than responding to the questions.** This means that in general terms, board members have little knowledge about the reasoning and rationale behind the choices made regarding the evaluation process.
- **Most companies use a quantitative method of evaluation, but no clear indication of what score indicate goals attainment is decided or discussed.** This is a subjective matter left to the individual board members to decide.
- **Analysis shows that there is little to no structured or formalized internal follow-up of the result of the board evaluation.** Most follow-up is related to management regarding the input to the Board, or it is related to practical elements related to the structure of the meeting, timing, length etc. If other needed follow-up concerning the board is identified, the follow-up is left to each board member. Any other follow-up is done externally through the Nomination Committee.

Appendix 6.3 Program focus group



Cass means business

PROGRAM

Time	Activity
0815 - 0830	Registration
0830 - 0845	Welcome and presentation
0845 - 1015	Discussions of the findings and suggestions
1015 - 1030	Concluding remarks and closing