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Short Overview of the Literature

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SELF ASSESSMENTS OF CORPORATE BOARDS: SHORT OVERVIEW OF THE LITERATURE

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Abstract

Boards of directors play an important role when it comes to decision-making within companies, but board members as a team are ultimately responsible for their activities. There are three main roles of boards: monitoring, consulting, and strategic planning (He et al., 2020; Levrau & Van den Berghe, 2007; Zahra & Pearce, 1989). The role of boards has been debated in research, e.g., what tasks boards should perform. In addition, scholars have approached the role of boards from different theoretical perspectives and defined the role of boards in a broad, even in some cases contradictory way (Åberg et al., 2019; Jansen, 2021; Levrau & Van den Berghe, 2007; Nicholson & Kiel, 2004a; Zahra & Pearce, 1989). Furthermore, it is unclear how boards work; how they go about fulfilling their roles and the various tasks that come with it (Leblanc & Schwartz, 2007; Jansen, 2021). Since the year 2000, scholars have increasingly focused on the elements and processes that take place in board activities from behavioral and social perspectives (Heemskerck, 2019; Ong & Wan, 2008; Sur, 2014). But before the year 2000, it was common to rely on financial and economic perspectives or the perspective of agency theory in research on boards (Dalton & Dalton, 2011; Forbes & Milliken, 1999; Leblanc & Gillies, 2003; Levrau & Van den Berghe, 2007).

Following failures and high-profile corporate governance scandals of the 1980s, regulations targeting listed companies were introduced. In addition, new compliance requirements and guidelines were formulated for boards to follow (Ingley & Van der Walt, 2005; Pettigrew, 1992). In the years 2000–2009, significant reforms were then made to the corporate governance guidelines. Then again, in response to a series of high-profile scandals and mistakes. These failures and scandals in corporate governance led to increased pressure being placed on boards and how they can manage their business adequately (Van der Walt & Ingley, 2000). Shareholders and other stakeholders began to demand that boards show more responsibility and professionalism in board work (Kiel & Nicholson, 2005; Long, 2006; Minichilli et al., 2007; Van der Walt & Ingley, 2000). For boards to demonstrate better and more efficient governance, it was considered important that boards evaluate their own performance (Kiel & Nicholson, 2005). A board evaluation was supposed to confirm that all board members are working and fulfilling their roles (Spencer Stuart, 2004). The reasoning behind the introduction of board evaluation is on the one hand to promote the efficiency of boards (Berg, 2007) and on the other hand to increase the responsibility of boards, in the sense that boards do what they are supposed to do (Huse, 2007).

Discussions about board evaluations began in the 1990s. However, the idea of board evaluations was not properly recognized until after the global financial crisis that took place in the years 2007–2009. Then the policy on board evaluation began to spread more widely and more countries began to implement board evaluation requirements in their guidelines for good corporate governance (Nordberg & Booth, 2019a; Booth & Nordberg, 2021; Pho, 2022).

Today, many companies or boards generally recognize the importance of performing and evaluating their performance regularly (Booth & Nordberg, 2021; Fenwick & Vermeulen, 2018). In addition, it is generally believed that board evaluation is a useful tool for evaluating the success of board performance (Ingley & Van der Walt, 2002, 2005; Leblanc, 2005; Leblanc & Schwartz, 2007; Long, 2006; Minichilli et al., 2007; Gabrielsson & Huse, 2004; Kiel & Nicholson, 2005). But the prerequisite for that is that the evaluation is well organized and that clear goals and criteria are set in advance based on those goals (Huse, 2007; Kiel & Nicholson, 2005; Minichilli et al., 2007; Rasmussen, 2010, 2015). Systematic and well-planned evaluation can then bring about various benefits for companies, boards as a whole and individual board members. For example, improved leadership skills, clearer roles and responsibilities, better collaboration, more responsibility, better decision-making, better communication, and more effective board operations (Kiel et al., 2018).

On the other hand, there is no standard assessment tool, as no “one size” can fit all boards (Carretta et al., 2010; Kiel & Nicholson, 2005; Minichilli et al., 2007; Soana & Crisci, 2017). Since boards can differ in

terms of e.g., competitive environment, tasks, and problems (Kiel & Nicholson, 2005). The ways of success can, therefore, be of all kinds, which is reflected in the different models of board success that have been presented (Nicholson et al., 2012; Nordberg & Booth, 2019b).

Much of the previous (older) research related to board performance focused on how board structure, demographics, or composition affect performance. Then, often, financial indicators are used as a measure. But most of these studies have been contradictory and results unclear (Dalton & Dalton, 2011; Forbes & Milliken, 1999; Kuoppamäki, 2018; Leblanc & Gillies, 2003). In addition, these previous studies provide limited understanding and insight into board performance (Roberts, 2002; Leblanc & Schwartz, 2007; Zahra & Pearce, 1989). This has led scholars to realize that board success has to do with more factors than just those related to board structure, demographics and composition (Forbes & Milliken, 1999; Leblanc & Gillies, 2003; Leblanc & Schwartz, 2007; Pye & Pettigrew, 2005; Zona & Zattoni, 2007).

Today, most academics agree that a multidisciplinary approach is needed and that boards are a group or team that makes decisions. It is also necessary to take into account the behavioral factors that occur in the activities of boards and how it affects the performance or success of boards (Charas, 2015; Forbes & Milliken, 1999; Jansen, 2021; Nicholson & Kiel, 2004b; Nordberg & Booth, 2019a). At the same time, scholars seem to generally agree that board success is fundamentally about the outcomes of "tasks" that occur when certain roles are performed (Nicholson & Kiel, 2004b; Levrau & Van den Berghe, 2007). The models that have been put forward support this, as they all have in common to rely on a multi-theoretical approach. As well as highlighting the complex relationship between corporate performance and board performance and how it can vary from company to company. Furthermore, these models give a good picture of the complexity of the interaction between various factors that are believed to influence the success of boards (Nordberg & Booth, 2019a).

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