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Increasing board effectiveness with the balanced scorecard – theoretical assumptions and application in practice

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ABSTRACT

Purpose – The purpose of this work is to analyse whether the balanced scorecard implemented at the board of directors can enhance board effectiveness in a real-life case study of two leading UK financial institutions – Barclays Plc and HSBC Holdings Plc.

Methodology– The analysis of the underlying theories and of the balanced scorecard concept is conducted through academic literature, corporate disclosures, public surveys and financial press review. The analysis is embedded in the context of the Agency Theory, the Shareholder Prerogative, the Efficient Market Hypothesis, the Agency-Stakeholder Paradigm and the Bounded Rationality Hypothesis.

Findings–The study constructs a Board Effectiveness Framework to test Barclays' board balanced scorecard. The results show that HSBC operates a more effective board despite having no board balanced scorecard at place. Furthermore, the historical review shows that both the companies experience severe corporate governance failure throughout the last years. It is concluded, that ethics should accompany effectiveness, whereas effectiveness does not depend on certain tools like the balanced scorecard.

Limitations–Generalising statements may not be appropriate on the basis of a case study of two entities.
Originality– The author is not aware of any Board Effectiveness Framework to test real-life scorecards against academic assumptions. The study contributes to the body of literature on the board effectiveness approach which yet has not gained as much attention as the structural approach and the regulatory approach.

Keywords: Agency Theory, Shareholder Prerogative, Agency-Stakeholder Paradigm, Bounded Rationality Hypothesis, Board Effectiveness Framework

1. INTRODUCTION AND RESEARCH QUESTIONS

Corporate governance deals with directing and controlling organisations, for example business entities (ACCA, 2012). The need for direction and control arises from the fact that ownership and management of an entity may be separated. This is especially true for public companies listed on a stock exchange, where shareholder ownership is widely dispersed and the shareholders do not participate in the day-to-day operations of the company. To the contrary, in public companies these tasks are the responsibility of professional executive managers (Jensen and Meckling, 1976).

The separation of ownership and management goes back centuries to the first public companies like the British Company of Merchant Adventurers from the early 16th century. The early stock companies encompassed only few hundreds of shareholders (Bisson, 1993). The first conflicts of the separation of ownership and management arose in Britain in the 1720s during the South Sea Bubble (Dale, 2004). The mismanagement and blatant managerial fraud at the leading undertakings of that time may have damaged just few thousands shareholders, as around 3,500 shareholders of the East India Company (Shea, 2011) and approximately 8,000 shareholders of the Bank of England (Mays and Shea, 2011). More than a century later, the British Railway Mania of the 1840s and 1850s witnessed managerial fail and deception on a massive scale (Taylor, 2007). But even at the peak of the Mania at 1845-1846 the total number of initial subscribers to new shares gravitated around 12,500 (Campbell and Turner, 2012). This has fundamentally changed since the rapid development of the stock markets in the 1920s and 1930s as stock ownership became a public phenomenon in the English-speaking world (Gomez and Korine, 2008). With the growth of corporations and of the market for corporate shares, the conflicts between shareholders and management intensified (Berle and Means, 1932). Management has been repeatedly accused of opportunism and self-interest to the detriment of shareholders and the wider public (Burnham, 1941). Since then, decades have went by and substantial and numerous efforts on national and multilateral levels have been undertaken to improve corporate governance, but failure and managerial fiascos have continued (Wearing, 2005).

The controversy about the right approach to corporate governance has been widely covered by the academic literature. One of the research lines is that of Leblanc and Gillies (2003), who argue that challenges faced by corporate directors, who are shareholder representatives, cannot be managed by addressing governance structure or regulations. To the contrary, the focus should be on the effectiveness of corporate governance. Consistent with this view, Kaplan and Nagel (2004) suggest implementing the board balance scorecard so that the boards of directors can use the scorecard when directing and controlling the company. Therefore, the first task of this study is to review the three approaches (structure versus regulations versus effectiveness) and to analyse the Kaplan and Nagel (2004) proposal. This task will be conducted by literature review. On this basis, the study will develop a framework to test whether the board balance scorecard in use by a real-life company could enhance board effectiveness and improve corporate governance. The framework is constructed with the aim to answer the first Research Question:

How can corporate governance be improved using the balanced scorecard according to theoretical assumptions?

The second task of this work is to compare the board effectiveness of a benchmark company that has adopted a balanced scorecard at board level with board effectiveness of a company that has not over the period of three years, 2013-2015. From this comparison, a conclusion can be made on whether the balanced scorecard improves corporate governance. Barclays Plc (hereafter referred to as "Barclays") has been selected as a benchmark company because it has adopted the balanced scorecard as a major instrument to implement strategy and to manage performance (Barclays, 2013). Beyond extensive disclosure of the balanced scorecard in Annual Reports, Barclays has created a webpage dedicated to its balanced scorecard, www.barclays.com/balancedscorecard. On this webpage further information and publications on the balanced scorecard are provided. This demonstrates a strong commitment to the balanced scorecard concept that justifies Barclays to be used as a benchmark company. As a comparator company, HSBC Holdings Plc (hereafter referred to as "HSBC") has been chosen. HSBC shows the least commitment to the balanced scorecard concept among a set of Barclays' competitors. Through this analysis, the study will answer the second Research Question:

Are the theoretical assumptions supported by real-life examples? A comparison of Barclays Plc (implemented a balanced scorecard) with HSBC Holdings Plc(no balanced scorecard implemented).

Ling et al. (2009) show that despite implementation efforts the board balanced scorecard is not yet widely recognized by the business community. This suggests that the thoughtful academic discourse is remote from everyday business practice. Thus, while combining the analysis of the theoretical framework with a real-life case study, this work aims at reducing the gap for the sake of corporate governance effectiveness.

2. LITERATURE REVIEW

Literature review on the theories of corporate governance

In face of the challenges emerging from the separation of ownership and management, the Agency Theory was developed as a possible solution to align the interests of the principals (the owners/shareholders) with those of the agents (the management) (Eisenhardt, 1989). The Agency Theory identifies the management as the more powerful part of the principal – agent dichotomy. Management may withhold critical information in order to be engaged by the shareholders in the first place. This may allow management to pursue conflicting goals during the engagement. This is referred to as adverse selection (Salanié, 2005). Also, management possesses more information about the company's affairs due to its executive and operational engagement, as compared to shareholders. Thus, management may misuse this information asymmetry to its own advantage (Shapiro, 2005). Furthermore, management may behave risk averse and restrain from risky, but profitable operations to avoid criticism in case of failure and to preserve its employment. Consequently, shareholders may forgo higher returns (Lewellen, 2003). The ability to cheat shareholders intensifies with the management's capability to hide its transgression, which is referred to as moral hazard (Caillaud and Hermalin, 2000).These conflicts culminate in agency costs to the shareholders, i.e. management compensation paid despite poor performance, low profits and low market value of the company's shares (Norman and Freeman, 1992).

To protect the shareholders from deviant management and to reduce the cost component, the Agency Theory suggests different mechanisms of corporate governance (Davis et al., 1997). The development and analysis of these mechanisms is referred to as positivist research, contrary to the principal-agent research (Bendickson et al., 2015). The latter is concerned with the optimisation of the principal-agent contract and is out of the scope of this work.

One of the corporate governance mechanisms studied by positivist research is the board of directors. The directors are supposed to be representatives of the shareholders and are elected on the annual general meeting by the shareholders (Solomon and Solomon, 2004). The board structure differs among jurisdictions. For example, in Germany there are dual boards (an executive board and an oversight board) with the oversight board consisting one-third to one half of employee representatives (subject to certain conditions) with the rest being shareholder representatives (Fauver and Fuerst, 2004). This study does not deal with the dual board perspective, but focuses on the one board structure as adopted by Anglo-Saxon markets. With regard to employee representation; this approach can be justified on two grounds. First, employees may be represented on the board if they are shareholders at the same time (Brown et al., 2012). Furthermore, pension funds actively invest in corporate shares, with current and future retirees (i.e. past, respectively current employees) being the beneficiaries of the pension funds' returns. Thus, employees may be represented on boards through the pension funds' shareholdings (McDonnell, 2011).

The main tasks of the board directors are recruitment, monitoring and dismissal of the Chief Executive Officer (CEO) as well as the setting of the overall company strategy on behalf of shareholders (Adams et al., 2010). However, researchers strongly disagree as to how well these tasks are accomplished by the board of directors. Mace (1971) argues that directors are peers rather than watchdogs of the CEO. Indeed, a survey conducted by Demb and Neubauer (1992) shows that less than half of the directors interviewed perceive their task as that of monitoring. A survey conducted by Northcott and Smith (2011) almost 20 years later shows that only 30% of public company directors regard CEO-hiring and monitoring as their genuine function. Monk and Minow (2004) explain this behaviour with the CEOs trying to influence which directors are to be elected and which remuneration and incentives the directors are entitled to. In this way CEOs try to induce the directors not to challenge the executives. However, several scholars point to the contrary. Vancil (1987) shows that poor performing CEOs are not tolerated by the boards. MacAvoy and Millstein (1999) provide evidence of boards acting in line with company performance and thus showing no support for poor performing CEOs. Growing rates for CEO dismissal are observed by Huson et al. (2001) and by Kaplan and Minton (2006).

Different attempts have been undertaken by the academia to explain these contradictory findings. The focus of research has been on the board structure, which includes board independence and board diversity, and on board size.

The debate on board's independence focuses on two main aspects. The first aspect is the number of inside(dependent) to outside (independent) directors serving on board. The National Association of Corporate Directorsderives independence from the director's accountability towards shareholders (NACD, 2008). Accountability and, hence, independence can be compromised by employment at or by business relations with the company according to the Business Roundtable(BRT, 2012). For the USA, as one of the leading financial markets, the Sarbanes-Oxley Act has made the New York Stock Exchange (NYSE, 2016) and NASDAQ to change their listing rules and to require the majority of directors to be independent (Stuart, 2012).

The second aspect is separation of the position of CEO and Chairman of the board. The UK Combined Code (FRC, 2014), the International Corporate Governance Network (ICGN, 2014) and the United Nations (UN, 2006) proclaim that the position of CEO and Chairman should not be assigned to the same person to prevent accumulation of power. Although the Council of Institutional Investors (CII, 2015) allows refraining from separation in "very limited circumstances", the National Association of Corporate Directors requires that an independent lead director should be assigned in such a case (NACD, 2008). The United Nations (UN, 2006) require the majority of directors to be independent if no separation takes place.

Indeed, Gillan and Starks (2000) demonstrate that boards with a higher number of independent directors undertake more diligence. Similarly, research conducted by Ryan and Wiggins (2004) and Boone et al. (2007) show that CEO's power increases with the number of inside (dependent) directors serving on board. Borokhovich et al. (1996) and Dahya et al. (2002) provide evidence that hiring CEO from outside the firm with no ties to dependent directors improves board's monitoring efforts. However, the conventional view as recommended by corporate governance best practice and as supported by the above studies has been increasingly challenged by recent research. Iwu-Egwuonwu (2010) argues that the majority of independent directors were over-concerned with check and balances of the executive's power. This may reduce the CEO's flexibility to create shareholder value. Koerniadi and Tourani-Rad (2012) show that boards governed by the majority of independent directors are negatively associated with corporate performance due to their lack of important business networks. Chou (2013) claims that independence alone cannot improve the board's effectiveness if not enough time is available for directors to fulfil their duties and if information asymmetry is maintained by the executives.

Similarly, the academic findings of the effects of the separation of CEO/Chairman position are mixed. Rechner and Dalton (1991) and Pi and Timme (1993) calculate higher profitability of companies with separated CEO/Chairman positions, albeit Boyd (1995) shows only minor outperformance. Harrison et al. (1988) show for manufacturing companies that a poor performing CEO can be difficult to remove if he also serves as the board Chairman. Mallette and Fowler (1992) demonstrate that companies that combine the CEO/Chairman position tend to adopt anti-takeover measures. These measures seek to protect current management. This may result in the shareholders forgoing high returns from accepting takeover bids. These findings are supported by Sundaramurthy et al. (1997) who show that the market reacts less negatively if anti-takeover measures are adopted by non-combining companies. Bebchuk et al. (2007) observe that CEOs who combine high governance power may be insulated from market discipline. In other words, they may benefit from high compensation and low dismissal risk even if achieving low financial returns. Based on these results, Vo (2010) argues that the board can perform its monitoring tasks more effectively if the CEO/Chairman position is separated. However, Chaganti et al. (1985) demonstrate that bankruptcy risk is not related to CEO/Chairman duality. Kesner et at. (1986) show that companies governed by a combined CEO/Chairman position engage in economic offences as often as companies with separated positions. Brickley et al. (1997) argue that cash flows and firm value are even higher at companies with combined roles. Finally, a statistically significant relationship between company performance and separation of the CEO/Chairman position cannot be established according to Baliga et al. (1996) and Dalton et al. (2007). Bennington (2010) claims the relationship to be "almost meaningless". Interestingly, Lorsch and Zellke (2005) go beyond financial metrics. They provide evidence for the separation to cause tension between CEO and Chairman about responsibilities and line of command. Leblanc and Gillies (2005) as well as Pick (2007) point out that CEO/Chairman behaviour and personal and professional capabilities are crucial for board effectiveness, but not separation of the roles. Likewise, Gabrielson et al. (2007) conclude from a study of board leaders that competencies shown during board meetings are more important than formal positions. These divergent views show that the academia struggles to establish a clear link between CEO/Chairman separation, enhanced board effectiveness and corporate performance (Said et al., 2009; Iyengar and Zampelli, 2009).

Also, there is no unequivocal academic opinion with regard to board diversity. Ferreira (2010) claims that minorities may be prevented from board engagement by entrenched majorities, for example in favour of demographic priorities. But he also establishes a trade-off between board performance and positive discrimination to the benefit of minority participants. No financial improvement is observed by Rhode and Packel (2014). However, these academics make a social case for diversity to improve board conflict resolution abilities and to acquire a broad range of experiences, skills and talents. Pletzer et al. (2015) do not establish a relationship between female board directorship and improved financial performance. Nevertheless, the researchers argue that boards should strive for diversity for ethical reasons.

Finally, there is no uniform scholarly view on the appropriate board size. On the one hand, international codes suggest a board size between five and fifteen directors (CII, 2015). On the other hand, there is no clear-cut empirical evidence as to these numbers.

So, in the European context, Alves and Mendes (2004) show for Portugal and Barroso et al. (2010) show for Spain that company profitability increases with an increasing board size. However, Guest (2009) shows for the UK that profitability declines with a higher board size. The same is evidenced by O'Conell and Cramer (2010) for Ireland and by Drakos and Bekiris (2010) for Greece. More disturbing, Beiner et al. (2004) fail to establish any relationship between board size and profitability for Switzerland, as fail Di Pietra et al. (2008) for Italy and Rodríguez-Fernández (2015) for companies listed on the Euro Stoxx50 Index. Attempts to establish an optimal number of directors have led to as various results as nine for UK companies (Guest, 2009) and 17–18 for Spanish companies (Fernández et al., 1998).

These diverse results can be traced back to different methodologies applied, to various cultural and geographical settings as wells as to conditions changing over time (Aguilera et al., 2012). However, the results can be scrutinized on more fundamental grounds. Thus, in line with the Stewardship Theory, it may be argued that agents are genuine servants (stewards) of the principals, so that no conflicts arise in the first place (Donaldson and Davis, 1991). This may be especially true for small markets where shareholders can benefit from close relationships between inside directors and executives, from their network connections and their talents (Muth and Donaldson, 1998). However, strong empirical evidence of reoccurring corporate malpractice demonstrates that there are conflicts among shareholders and management that result in shareholder value destruction (Wearing, 2005). Thus, it may be concluded that the Stewardship Theory is not superior to Agency Theory in explaining corporate governance failure.

It may be argued with the Stakeholder Theory, that the governance mechanisms fail because they not adequately address conflicts between the different stakeholders of the company (Blair, 1995). Freeman (2010) defines stakeholders as persons affecting or being affected by the organisation. Fitzgerald (2007) argues that business competition takes place on different dimensions, thus affecting numerous stakeholders. Indeed, shareholders are only one group of stakeholders among many others (Donaldson and Preston, 1995). Furthermore, Etzioni (1998) argues that ownership rights were not natural rights, but social constructs which do not deserve preferential treatment as compared, for example, to human rights. Therefore, corporate governance should pay due attention to the interests of non-owners to ensure proper functioning of the firm (Marens and Wicks, 1999).

Though, Stakeholder Theory is at odds with the Shareholder Prerogative of the UK Combined Code and the UK Companies Act (Attenborough, 2014). The UK Combined Code is a fundamental source of corporate governance to the British companies Barclays and HSBC. The UK Companies Act provides the legal basis for the both the companies. Furthermore, both the companies apply the International Financial Reporting Standards (IFRS) for the preparation of their financial statements. Shareholder primacy is at heart of the IFRS (Ding et al., 2013). Also, IFRS are perceived to be quality financial reporting standards by market participants (Armstrong, 2008). According to Brennan and Solomon (2004) quality financial reporting standards increase financial transparency. Transparency helps to align shareholder interests with managerial actions. Alignment of principals and agents is the major purpose of the agency theory. Hence, it may be concluded that the Agency Theory creates the link between the UK Combined Code, the UK Companies Act and the IFRS, which is not the case for the Stakeholder Theory.

However, Arafat et al. (2011) show that a shift towards the stakeholder perspective is taking place among corporate governance standard setters. A survey undertaken by Northcott and Smith (2011) among directors of listed companies from New Zealand reveals that only 13% of respondents regard serving shareholders as their main function. Based on their findings, Northcott and Smith (2011) adopt the view that stakeholders were the customers of the board of directors. This runs against the Agency Theory and the Shareholder Prerogative. However, the differences between the Stakeholder Theory and the Agency Theory may not be unbridgeable. Indeed, March and Simon (1958) trace stakeholder relationships back to exchanges of resources between the stakeholders and the firm. That may be goods and services against payment as in case of suppliers or infrastructure and legal protection against law-abiding conduct as in case of the general public. Exchange relationships can be analysed by financial theory. On this basis, Hill and Jones (1992) establish the Stakeholder-Agency Paradigm. They argue that exchange relations can be explained by the Efficient Market Hypothesis, if the efficiency assumption is dropped in favour of a continuing disequilibrium. The scholars regard the efficiency assumption as not realistic. To the contrary, they claim that market participants reinforce temporary disequilibria if they are able to take advantage of them. The researchers argue that differences in power arise between stakeholders due to the prolonged disequilibrium, which cause the agency costs to occur. In order to reduce agency costs, market participants adjust their relationships through governance mechanisms and through efforts to increase efficiency. Thus, on the basis of exchange relationships, Hill and Jones (1992) manage to incorporate the stakeholder perspective into the Agency Theory. Consequently, the deviating results of corporate governance research may be regarded as a product of continuing adjustment processes, rooted in market imperfections.

An explanation for market imperfections is provided by the Bounded Rationality Hypothesis. It states that decisions are based on misleading assumptions and incomplete knowledge (Simon, 1972). Thus, directors may fail to properly monitor the management due to false assumptions about the company's affairs. Likewise, management may fail to respond to the shareholder needs due to its own ignorance (Carroll, 2004). Indeed, information and knowledge are inevitably limited. However, bounded rationality is not to be understood as an insurmountable obstacle. To the contrary, it calls for new ways to improve the knowledge basis of principals and agents.

To accomplish this task, three approaches are suggested by research. The advocates of the structural approach claim that corporate governance can be improved if the mechanisms currently at place are adjusted and refined. Thus, Holstromand Kaplan (2003) argue that a stronger link of executive compensation packages with company performance may improve alignment of principals and agents. Likewise, Edwards (2003) stresses the importance of performance related executive remuneration, but also calls for more independent directors and the separation of the CEO/Chairman position. A study conducted by the Wharton University (2004) claims that director independence may be preserved if board meetings are conducted in absence of the dual CEO/Chairman. Crowther and Jatana (2005) call for the majority of the board to be staffed by independent directors with thorough evaluation procedures of director performance by the whole board. Buiter (2009) wants board directors to pass a yearly written examination to prove their competence, with the results being publicly available. This view is supported by Kumar (2013) claiming that boards should be staffed with highly trained directors. Idnani (2015) argues that board size should be reduced in order to become more manageable. Interestingly, despite the proposal to reduce the board size he strives to increase gender diversity. Subramanian (2015) proposes a whole set of measures under the label Corporate Governance 2.0, including longer tenure and elder directors to benefit from their experience, more disclosure between directors and the shareholders that they represent and board evaluation through an unrelated third party. However, empirical evidence suggests that the structural approach struggles to prevent and to resolve the conflicts arising between principals and agents. To be sure, the most devastating corporate failure occurred at companies at which corporate governance structures seemed to be almost perfectly aligned with best practice recommendations. This was the case with Enron (Edwards, 2003) and with a sample of 37 public companies delisted from the S&P 500 index during the 2008 financial crisis (Cheffins, 2009) as well as more recently with Toshiba (Aronson, 2015). Therefore, further adjustments and refinement of corporate governance structures may miss the target.

The activists of the regulatory approach take the view that self-regulation through corporate governance has become a substitute for governmental intervention (Pargendler, 2014). Thus, failure of corporate governance mechanisms calls for reconstitution of policing and regulation. Sarre (2003) proposes to extend director duties under company law and to withdraw limited liability from corporations infringing the environment, human and employee rights as well as public safety. His agenda includes publishinga shaming register for transgressing directors and the enforcement of codes of conduct and triple line reporting which are voluntary yet. Tothova (2008) goes a step further and claims that voluntary corporate governance guidelines should become law. However, it is assumed for the purpose of this work that the regulatory approach will not gain any ground in the short term. Durden and Pech (2006) argue that more regulations may increase compliance costs, slow down operational time and thus the operational flexibility of management. Therefore, the regulatory approach will probably face severe resistance from business lobbying groups. Furthermore, the supporters of the regulatory approach are aware of the overwhelming predominance of the structural approach to corporate governance which may drive their own proposals impracticable (Pargendler, 2014).

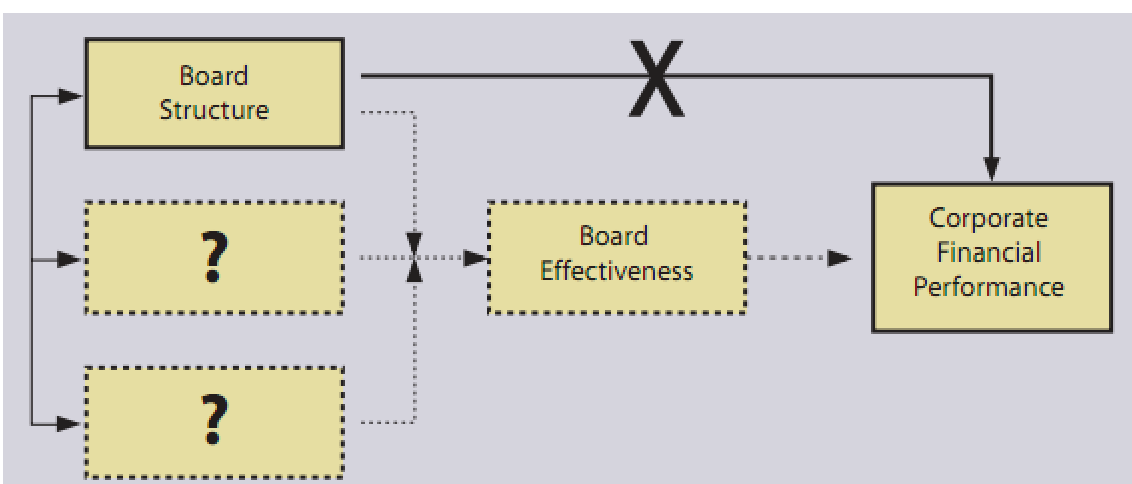

Figure 1 Board structure does not determine board effectiveness alone
(Source: Leblanc and Gillies, 2003)

Contrary to the efforts to improve the structure of the existing corporate governance mechanisms or to introduce new regulations, the effectiveness approach addresses the dynamics and procedures at board. Westphal (2002), one of the proponents of the effectiveness approach, claims that director independence is less important compared to the director's ability to meet the strategic needs of the company. This view is supported by Daily et al. (2003) arguing that director independence and CEO/Chairman separation must have had prevented corporate governance failure that has nevertheless occurred at companies at which they were adopted. Leblanc and Gillies (2003) claim that board effectiveness for the sake of corporate performance is not determined by structure alone, as shown by Figure 1.

To the contrary, Leblanc and Gillies (2003) focus on the processes that shape decision making at board. Therefore, in order to be effective directors, members of the board should not only be professionally skilled (Davies, 1999), but they also should possess soft skills (Van den Berghe and Levrau, 2004). These interpersonal skills should help the directors to maintain a functioning relationship with each other, but also with the board chair (Hossack, 2006) and with the executive team (Charan, 2005). Rosen (2010) supports the importance of board dynamics for effective decision making. Beggar (2011) claims that director expertise in the business operations of the firm may be more important than formal independence. Indeed, the survey of Northcott and Smith (2011) on public company directors reveals that 38% of responding directors regard boardroom practice and board and management relationship as crucial for board effectiveness. 52% of respondents blame poor boardroom practice and poor relationships for board failure. Therefore, Sun et al. (2012) postulate that a holistic view to the board of directors should be adopted, limiting the importance of structural issues. Thus, board culture becomes a key priority of board effectiveness (Parker, 2007). Leblanc and Gillies (2003) trace board culture back to board membership and board processes. Membership and processes which contribute to board effectiveness are shaped by director competence and director behaviour, as presented by Figure 2:

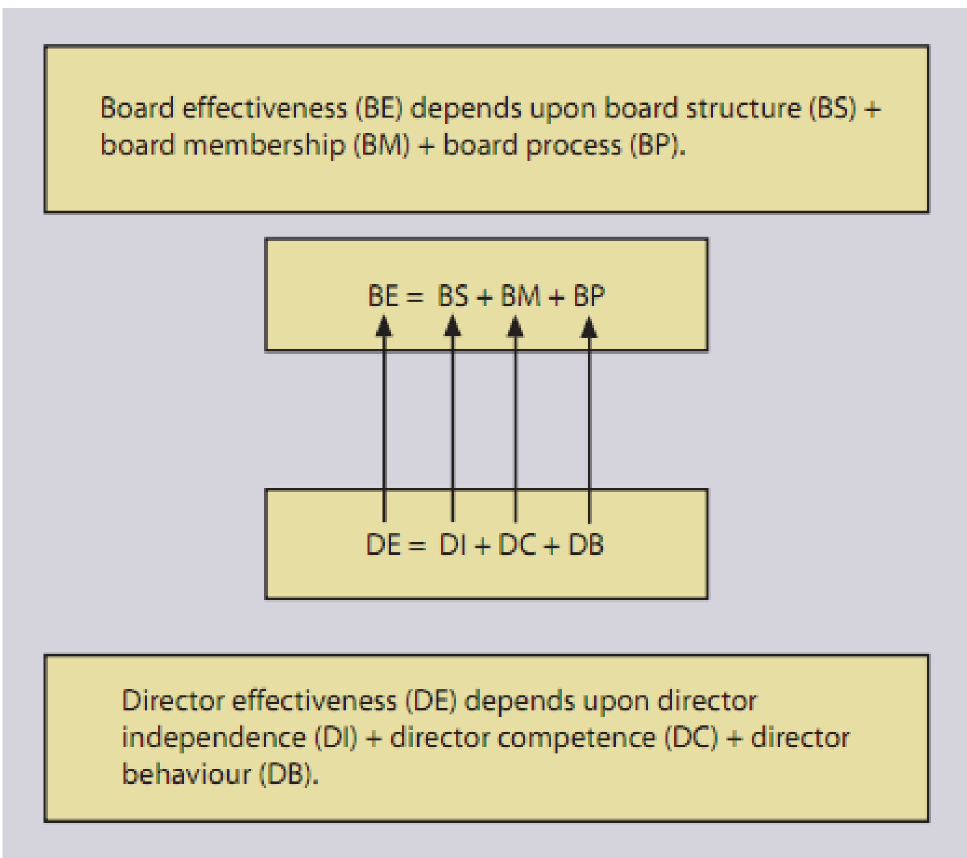

Figure 2 Constituencies of board effectiveness (Source: Leblanc and Gillies, 2003)

However, board effectiveness may be difficult to determine (Northcott and Smith, 2011). Best practice, corporate governance codes and legislature do not provide a framework for director competence and director behaviour (Hopt et al., 2004). The board balanced scorecard has been suggested by Kaplan and Nagel (2004) as a tool to measure and manage board effectiveness. The next part of the literature review deals with this proposal.

Literature review on the board balanced scorecard concept

The board balanced scorecard goes back to the original balanced scorecard as developed by Kaplan and Norton (1992). The original scorecard integrates financial and non-financial perspectives to answer crucial questions about company performance from a holistic point of view:

– Customer Perspective ("How do customers see us?")
– Internal Business Perspective ("What must we excel at?")
– Innovation and Learning Perspective ("Can we continue to improve and create value?")
– Financial Perspective ("How do we look to shareholders?")

The balanced scorecard as proposed by Kaplan and Norton (1992) is presented by Figure 3. In business practice, the "goals" and "measures" columns may be supplemented by "targets" and "deviations" columns (Punniyamoorthy and Murali, 2008).

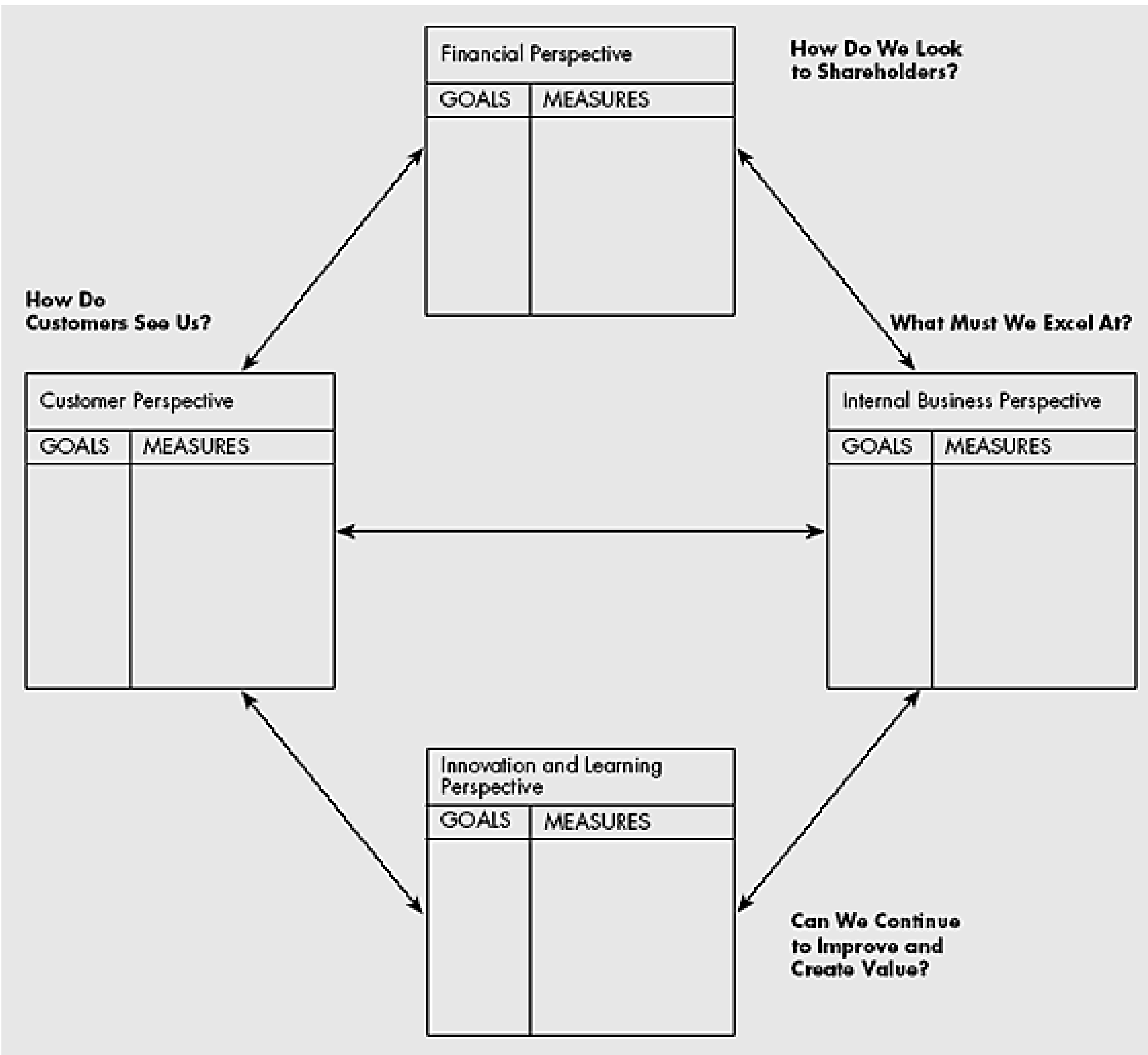

Figure 3 The four perspectives of the balanced scorecard (Source: Kaplan and Norton, 1992)

The idea of combining non-financial and financial measures has its roots in the management tool "tableau de board" as it was deployed in France from the 1960s onwards (Pezet, 2009). Beyond the greater insight from a variety of measures, the approached distinguished itself by its simplicity of providing crucial metrics on a scorecard, thus facilitating decision making (Tversky and Kahnemann, 1973). On the American continent, the Canadian enterprises introduced the tableau in the 1980s, probably due to cultural ties with France (Stewart and Hubin, 2001).

The philosophy of the original balanced scorecard is based on the assumption that customer satisfaction, process optimisation and the development of new products and services (the three perspectives) are at the heart of each business entity, whatever the strategy. Kaplan and Norton (1996) argue that poor managerial decisions may result from a focus on financial data only. Thus, financial metrics (the fourth perspective) need to be supplemented by the other three perspectives to assess and to guide the company on a well-informed and comprehensive basis (Atrill and McLaney, 2009). Companies may choose the measures of the perspectives that are best suitable for their special needs and strategy. Thus, one of the main tasks in developing a balanced scorecard lies with selecting the appropriate key performance indicators, i.e. measures, which shape the company's strategy (Lipe and Salterino, 2000). Therefore, two preconditions are crucial for the balanced scorecard to become a useful instrument: First, the company strategy should be appropriate under the given economic, financial, political and environmental constraints (Al-Baidhani, 2013). Second, there must be a cause-and-effect link between the strategy and the key performance indicators as well as between the indicators and their results (Nørreklit, 2000).

Although the original balanced scorecard was developed as a device for management concerned with day-to-day operations, its merits have been soon recognized by corporate governance scholars. Hermanson et al. (1997) demonstrate (without amending the original balanced scorecard concept) that it could be utilized by board directors for CEO oversight as well as for strategy implementation and company control. Ball et al. (2003) argue that the balanced scorecard can considerably contribute to time savings of those in charge of the company. With regard to directors, Ball et al. (2003) develop the Strategic Alignment Model that helps to align board structure with culture and director competencies through the use of the balance scorecard. In their view, the visibility of measures, targets and achievement on the face of the scorecard facilitates modernisation, creativity and collaboration among directors as well as "collective intelligence". This perception of the balanced scorecard clearly relates to board effectiveness, director competence and director behaviour as understood by Leblanc and Gillies (2003). Interestingly, with regard to behaviour, Kaplan and Norton (1992, p. 79) state in their seminal paper that the balanced scorecard

> "establishes goals but assumes that people will adopt whatever behaviors and take whatever actions are necessary to arrive at those goals."

Behaviour plays a central role in the effectiveness approach to corporate governance. Thus, Kaplan and Norton (1992) seem to have anticipated the usefulness of the balanced scorecard for assessing, evaluating and improving behaviour for the sake of board effectiveness. However, Kaplan and Nagel (2004) go beyond the original balanced scorecard. They propose an amended balanced scorecard which is explicitly aimed at board directors. In fact, their proposal comprises three scorecards:

1. The enterprise balanced scorecard should provide the directors with the insights as per original balanced scorecard,
2. The board balanced scorecard defines what the board should contribute to company strategy, streamlines their information needs and provides an instrument to manage board structure and performance,
3. The executive balanced scorecard that should be used by the board in selection, evaluation and remuneration of the CEO against the achievement of strategic goals.

The board balanced scorecard is of special interest for this study. Figure 4 provides an example of the board balanced scorecard as developed by Kaplan and Nagel (2004).

Executive Enhancement Theme	Objective	Measure(s)	Target(s)	Owners
Financial Maximize the Long-Term Total Return to Shareholders Grow Revenue Maintain a High Level of Risk Management	Maximize the Long-Term Total Return to Share- holders	Return on Equity Relative to Peers	2004 75th per- centile	Executive Management
Stakeholder	Strengthen and	Are executive and	100% by	Compensatio

Strengthen and Motivate Executive Performance	Motivate Executive Performance	affiliate CEOs on track with development plans?	12/2004	n Committee
Internal Processes Evaluate and Reward Executive Performance Oversee Succession Planning for Key Positions	Oversee Succession Planning for Key Positions	Share of executives with a current succession plan in place	75% 2004 100% 2005	Governance Committee
Learning & Growth Assure Access to Strategic Information	Assure Access to Strategic Information	Board member survey on relevance of information presented	Above Average 2004 Excellent 2005	Full Board

Figure 4 The board balanced scorecard (Source: Kaplan and Nagel, 2004)

It is interesting to note that the customer perspective of the original balanced scorecard is substituted by the stakeholder perspective in the board balanced scorecard. The customer perspective has been widely recognized by the academia as a crucial one (Gupta and Zeithaml, 2006). Research conducted by Anderson et al. (2004) shows that increasing stock prices of public companies and thus shareholder value goes back to customer satisfaction. Nevertheless, with regard to directors, Kaplan and Nagel (2004) argue that the board is not only responsible to customers and to the shareholders, but to the wider public including regulators and communities. This stakeholder perspective is further developed by Epstein and Roy (2004), who extend director accountability towards employees and suppliers. Moreover, Pointer et al. (2005) claim that directors should “maximize stakeholder benefit”. However, none of the scholars decline responsibility towards shareholders. Thus, it may be concluded that the board balanced scorecard concept matches the Stakeholder-Agency Paradigm (Hill and Jones, 1992).

This academic view has been subject to criticism. Pessanha and Prochnik (2006) argue that people on the top of a company hierarchy may disregard soft factors like relationships and behaviour in favour of hard financial data. However, Hopwood (1974) shows that a non-financial focus could be adopted over time. Also, Huber (1991) shows that evaluation by non-financial metrics may trigger efforts by those evaluated to improve their conduct in order to benefit from a better evaluation outcome. This view is supported by Lapre and Tsikriktsis (2006) with regard to managerial learning. Thus, the overall performance may improve over time in line with balanced scorecard perspectives (Campbell et al., 2002).

At a rather fundamental level, Carver (2001) argues that directors should only be concerned with strategy setting without a detailed CEO monitoring and without being involved in all the perspectives offered by the balanced scorecard. Hence, in his view a balanced scorecard should not be used by the board of directors at all. That scholar’s opinion on directors’ duties is clearly outdated. Today, the responsibility to oversee the management is assigned to the board of directors by law, corporate governance codes and established practice (Solomon and Solomon, 2004). However, the focus on strategy has also been strongly favoured by the Chartered Institute of Management Accountants (CIMA) that has produced a strategic scorecard as opposed to the board balanced scorecard. CIMA (2007) claims that the board balanced scorecard would not adequately address strategic challenges which are at heart of the board responsibilities. Therefore, it substitutes the four perspectives of the board balanced scorecard with four other elements, namely strategic position, strategic options, strategic implementation and strategic risk. The strategic scorecard of CIMA (2007) has advantages for strategy management, but it deprives the directors of the possibilities they have under the wider board balanced scorecard perspectives. Also, the board balanced scorecard provides directors with a tool to discharge of their duties of management monitoring and of being an effective board as per the UK Combined Code (FRC, 2014). The strategic scorecard falls short of these requirements. Thus, it could supplement, but it should not replace the board balanced scorecard.

The literature review has indicated the effectiveness approach as a promising solution for the enhancement of board performance and corporate governance. Furthermore, the review has introduced the board balanced scorecard as a tool to apply the effectiveness approach in practice. In the following sections, the effectiveness approach will be tested in a real-life case study.

3. METHODOLOGY

The study seeks to answer two Research Questions. The first Research Question asks whether in theory corporate governance can be improved using the balanced scorecard. The research findings on the effects of the balanced scorecard on corporate governance are assessed via academic literature. Based on these findings a Board Effectiveness Framework is constructed. The framework incorporates categories of board effectiveness as identified by research and that, in theory, can be addressed through the balanced scorecard.

The second Research Question asks whether the results of previous research may be applied in a real-life case study. The case study is conducted by comparing two companies. One of the companies has adopted a balanced scorecard (the benchmark company), whereas the other company has not (the comparator company). The adoption, respectively the non-implementation of the balanced scorecard by the companies under consideration is identified through corporate disclosure and industry press. It is important to compare companies similar to the greatest possible extent in industry, size, operations and governance structure, save for the application of the balanced scorecard. The results of the case study are discussed on the background of the implementation of the balanced scorecard by the business community and on the recent corporate history of both the case study companies. The case study focuses of two companies only. Thus, generalising statements must be made with great caution. However, the case study method of examining one or just few entities is widely adopted and accepted in accounting research (Scapens, 2006).

The comparison undertaken in this case study is subject to two constraints. The first constraint is that a single board balanced scorecard to be adopted by all companies does not exist. The users of a balanced scorecard are free to adopt goals, measures and targets that are most suitable for their needs. In fact, this is not a limitation of the balanced scorecard concept, but its intended feature, securing its applicability and adaptability (Kaplan and Norton, 1992). But this feature of the balanced scorecard concept makes comparability more difficult. Thus, if the board balanced scorecard of a company is adopted as a benchmark for comparison with another company, the fact that the companies do not achieve the same results can mean two things. Either, deviation occurs because the comparator company lacks a board balanced scorecard, or simply because it has adopted other goals. However, for the purpose of this study it is assumed that both the companies have similar corporate governance goals, i.e. to have an effective board of directors and a functioning corporate governance system at place.

This assumption is based on two considerations. First, an ineffective board of directors, i.e. a board composing of incompetent directors who cannot collaborate with each other and with the executives, would not be able to preserve and enhance corporate performance and thus would destroy shareholder value (Monk and Minow, 2004). This is clearly not in the best interest of the company's owner, the shareholders (Wahlen et al., 2012). Second, around 52% of FTSE-100 companies are fully compliant with the UK Combined Code, with only 2.2 deviations per non-compliant company on average (Seidl et al., 2009). The compliance rate of British companies listed on Alternative Investment Market (AIM) lies between 77% and 89% (PWC, 2008). These statistics justify the assumption that the majority of companies are interested in having a functioning corporate governance at place. Thus, the analysis of the board effectiveness can be reduced to the question of whether deviation occurs because the comparator company lacks a board balanced scorecard.

The second constraint is that the benchmark company may not use a pure board balanced scorecard. Instead, it may apply a general balanced scorecard which incorporates just some features that are relevant for the board of directors and the corporate governance. This is the case with Barclays in the case study. This constraint is mitigated in a way that the features that are relevant for the board of directors and corporate governance are extracted from the general balanced scorecard for further analysis.

4. DISCUSSION

Development of the Board Effectiveness Framework

The academia has been enthusiastic about the board balanced scorecard. Several researchers assume that the board balanced scorecard may contribute in various ways to board effectiveness and to board performance. Table 1 shows the effects of the board balanced scorecard on board effectiveness and on board performance in view of the academic literature.

Scholars	Effects of the board balanced scorecard on board effectiveness and on board performance

Kaplan and Nagel (2004)	- Informed "performance oversight"
	- CEO evaluation on a sound basis
	- Improved compliance with
	    - law and
	    - regulations
	- Improved communication with
	    - investors and
	    - authorities
	- Enhanced director contribution to
	    - "performance oversight,
	    - executive enhancement,
	    - compliance,
	    - communication,
	    - corporate citizenship through stakeholder perspective"
	- Improved director
	    - "skills,
	    - knowledge and
	    - competencies"
	- Reduced information asymmetry between management and board
	- Ensured "productive board meetings that feature
	    - discussions and
	    - interactions among board members and with executive team"

Epstein and Roy (2004)	- Established "superior strategic guidance"
	- Ensured accountability towards various stakeholder groups
	- Supported selection of a "highly qualified executive team"
	- Acquisition of information regarding:
	    - "alternative strategies"
	    - "major risk factors"
	    - "amounts of resources and investment required"
	    - "requirements for additional technology and investment"
	    - best / worst / most likely scenarios
	    - "succession planning"
	    - "customer demands"
	- Evaluation of directors regarding "an optimal coverage of
	    - general,
	    - functional,
	    - industry-specific,
	    - and company-specific knowledge"
	- Evaluation of directors regarding
	    - personal diligence and
	    - "strong ethics"
	- "Ensuring a reliable financial reporting system"
	- "Reviewing strategic plans"
	- Ensuring "optimal board functioning"
	- Evaluation of the
	    - number of board committees,
	    - composition of board committees,

	- number of board meetings,
	- length of board meetings,
	- “appointment of a lead director”,
	- agenda setting
	- “Transparent reporting” to “internal and external stakeholders”
	- “Understanding (stakeholder) informational needs”
	- Ensured disclosure “in formats and language that are clear and accessible for high-quality communication to the various stakeholders”
	- Ensured
	  - “profitable growth”,
	  - “sound capital allocation decisions”,
	  - “profitability of approved projects”

Kaplan and Norton(2006)	- Directors can discharge of duties despite:
	  - limited time
	  - limited information
	- Management of
	  - board composition and
	  - board performance
	- Strengthened board’s position as “the single most important component in the entire system of capital market governance”
	- Improved “board culture, especially
	  - the characteristics of productive board meetings and
	  - interaction between the board and the executive leadership team”

Pointer et al. (2005)	- Creating a “framework for board meeting planning”
	- “Driving
	  - the agenda,
	  - the background information given,
	  - the discussion,
	  - action and follow-up required to maximize stakeholder profit”
	- Ensured planning of “board education”
	- Ensured planning of “board development activities”
	- Ensured “self-assessment of
	  - performance and
	  - improvement”
	- Created “framework for
	  - board policy-setting,
	  - decision-making and
	  - other governance activities”

Northcott and Smith(2011)	- Contribution to
	  - “strong relationships”,
	  - “strategic clarity”,
	  - “the quality of important inter-personal relations”
	- Inclusion of “subjective measures, rather than focussing on readily quantifiable measures”
	- Sustainability of
	  - “a constructing atmosphere of healthy debate and questioning”
	  - “vigorous and constructive debate in the boardroom”

	- Ensuring - "a constructive atmosphere, - open debate, and - an ability to challenge management" - Improved - "personal interaction and - board dynamics", - relationships "as both an effectiveness driver and a "hygiene factor" - Building on - "behavioural issues" - "qualities of people, rather than the efficacy of board practices and procedures"

Table 1 The effects of the board balanced scorecard on board effectiveness and on board performance in view of the academic literature

The effects of the board balanced scorecard as elaborated by research according to Table 1 can be grouped into eight categories:

- Compliance
- Accountability
- Information flow
- Communication, discussions, debates
- Constructive, healthy, open atmosphere
- Relationships, personal interaction
- Skills, Knowledge, Education
- Self-evaluation

Using these categories, the following Board Effectiveness Framework is constructed, as presented by Table 2. The Board Effectiveness Framework aligns the categories of the board balanced scorecard with determinants of board effectiveness per Leblanc and Gillies (2003).

Categories of the board balanced scorecard	**Determinants of board effectiveness**	
	Director competence	**Director behaviour**
Compliance	X	X
Accountability	X	X
Information flow	X	
Skills, Knowledge, Education	X	
Communication, discussions, debates		X
Constructive, healthy, open atmosphere		X
Relationships, personal interaction		X
Self-evaluation	X	X

Table 2 Board Effectiveness Framework

Compliance builds on competencies and influences behaviour (thus, both the boxes of determinants are checked). The same is true for accountability. Information flow increases competencies, as do skills, knowledge and education. Communication, discussions and debates, a constructive, healthy and open atmosphere as well as relationships and personal interactions presuppose appropriate behaviour. Finally, self-evaluation affects both competencies and behaviour. In order to use the Board Effectiveness Framework in a case study, the features of a real-life board balanced scorecard are to be compared with the framework. For example, if the real-life scorecard entails measures for skills or education, it may be concluded that the scorecard addresses director competence and thus contributes to board effectiveness. On the background of the above analysis, the first research question of this study can be answered as follows:

How can corporate governance be improved using the balanced scorecard according to theoretical assumptions?
Answer: The prevailing scholarly view is that the balanced scorecard can help to improve director competence and director behaviour. Thus, the academia assumes that the board of directors should be able to discharge of its corporate governance duties in a more effective manner, if a board balanced scorecard is in use.

Application of the board balanced scorecard in practice. The case study of the Barclays PLC and the HSBC Holdings PLC
In the following case study, a comparison is undertaken between a benchmark companies that has implemented a board balanced scorecard with a comparator company, which has not. The UK banking sector has been chosen as industry sector for further analysis. This choice has been made due to the important role that finance providers play for economic growth (Levine, 2005), education (Levine and Rubinstein, 2014) and the overall prosperity (Zingales, 2015). To select a benchmark company and a suitable comparator, the industry sector has been studied. From this study, four major banks have been identified as the leading UK financial institutions, namely Barclays, HSBC, Lloyds Banking Group and Royal Bank of Scotland (Dunkley, 2016; Treanor, 2016). The following reconciliation in Table 3 shows how the balanced scorecard concept is applied throughout these organisations. In case the balanced scorecard is mentioned and disclosed in corporate publications, a value of 1 is assigned, otherwise 0. The company with the highest score is assumed to have implemented the balanced scorecard at most. Thus, the reconciliation helps to identify the institution which should become the benchmark company, as well as a banking house with the lowest implementation, i.e. the comparator company.

Company / **BSC implementation**	**Barclays Plc**	**HSBC Holdings Plc**	**Lloyds Banking Group Plc**	**Royal Bank of Scotland Plc**
BSC is mentioned in Annual Report 2013	1	0	1	1
BSC is mentioned in Annual Report 2014	1	0	1	1
BSC is mentioned in Annual Report 2015	1	1	1	1
BSC is described in Annual Reports	1	0	1	0
BSC is described on company webpage	1	0	0	0
Company provides publications about its BSC	1	1	0	0
Company uses another scorecard system	1	1	1	1
Total	7	3	5	4

Table 3 Assessment of the balanced scorecard usage by the leading UK banks

The reconciliation reveals that Barclays achieves the highest score among its industry peers. The company strongly relies on the balanced scorecard throughout the organisation (Barclays, 2013). The implementation of the balanced scorecard is evidenced by in-depth explanations of its scorecard in annual reports, on the special webpage www.barclays.com/balancedscorecard and in publications that are downloadable from the corporate webpage. Thus, this financial institution is used as a benchmark company in this study. However, it is worth noting that Barclays adopts a general balanced scorecard which incorporates board relevant elements. This is not a genuine board balanced scorecard. For example, it is assumed that statements made in the balanced scorecard with reference to Barclays' personnel are also applicable to the board of directors.

HSBC achieves the lowest score and is subsequently used as a comparator. The balanced scorecard is only mentioned twice in the 2015 Annual Report, as a measurement tool for remuneration purposes. The balanced scorecard is adopted by various HSBC subsidiaries, like the Taiwan HSBC (Islam et al. 2012), UK Marks and Spencer Unit Trust Management Limited, Marks and Spencer Financial Services Plc (M&SUTM, 2015), the South-African HSBC Bank plc (Johannesburg Branch, 2014) and the Australian HSBC Bank Australia Limited (HSBC Australia, 2015). However, on the group level, which is tested in Table 3, the balanced scorecard concept obviously does not deserve much attention. However, the bank uses other scorecards like the performance scorecards, risk scorecards, annual bonus scorecards, long term incentive scorecards, CEO annual scorecard and group performance share plan scorecard (HSBC, 2015). Different scorecards are used by industry peers, too, including Barclays (Barclays, 2015). However, the lack of focus on the balanced scorecard makes HSBC a suitable comparator. Indeed, from the comparison it may be concluded whether the Barclays' balanced scorecard contributes to higher board effectiveness as compared to the various scorecards used by HSBC. Table 4 shows the Barclays' balanced scorecard which incorporates five perspectives (Customer & Client, Colleague, Citizenship, Conduct and Company) along with its metrics (Barclays, 2016).

Barclays BCS perspectives	**Barclays BCS perspective outcome statements**	**Metrics**
Customer & Client	"We are 'Go-To' for our customers and clients."	- "Personal and Corporate Banking (PCB), Barclaycard and Africa Banking weighted average ranking of Relationship Net Promoter" - "Client Franchise Rank: Weighted average ranking of wallet share or customer satisfaction with priority clients in the Investment Bank"
Colleague	"Our colleagues are fully engaged." "We create a diverse and inclusive environment where colleagues can fulfil their potential."	- "Sustained engagement of colleagues score" - "Percentage of women in senior leadership"
Citizenship	"We positively impact the communities in which we operate."	- "Citizenship Plan - number of initiatives on track or ahead"
Conduct	"Our products and services are designed and distributed to meet clients' needs." "We act with integrity in everything we do."	- "Conduct Reputation" (YouGov survey)
Company	"We create sustainable returns above the cost of equity." "We understand and effectively manage our risks, and continuously improve control."	- "Return on Equity (Adjusted)" - "Fully Loaded CRD IV CET1 ratio (Capital Requirements Directive IV Common Equity Tier 1)"

Table 4 Barclays' balanced scorecard perspectives and metrics (Source: Barclays, 2016).

The Customer & Client and the Company perspectives are measured through customer management and financial metrics that do not provide any insight to director competence and director behaviour.

The Citizenship perspective refers to environmental issues as well as to contributions towards communities in which the bank operates. This perspective also does not offer any insight into director competence and director behaviour.

The Colleague perspective is assessed by the way of two metrics: Sustained engagement of colleagues score and Percentage of women in senior leadership. The sustained engagement is calculated by Barclays on the basis of the Towers Watson Global Financial Services Norm survey, which evaluates over 1.1 million employees from over 100 financial service providers (Barclays, 2016).The sustained engagement is assessed by the survey using various metrics. Among the metrics, there are skills, empowerment and challenging work which may attract or retain employees (Ruge, 2011). These metrics may be applied to director competence and director behaviour. Skills address director competence. They may be assessed via the number of board briefings and workshops held per year to educate the directors about business and governance relevant matters. The number and description of briefings is disclosed in Annual Reports.

Empowerment and challenging work address director behaviour. Tengland (2012) argues that empowerment and challenge can improve working skills, but at the same time preserve one's autonomy. Sturman and Ford (2011) claim that empowerment can increase motivation. Empowerment and challenging work can be measured by the number of board meetings (including board committee meetings) held per year, which are also disclosed in Annual Reports. Finally, percentage of women in senior leadership can be measured by the number of female directors at board, as disclosed per Annual Reports. It has been shown that gender diversity relates to the board structure approach, not to the board effectiveness approach. However, Barclays regards gender diversity as a matter of competence diversity (Barclays, 2015). Hence, it is assumed that female board members address director competence. Table 5, 6, 7 and 8 show how Barclays and HSBC perform with regard to these metrics.

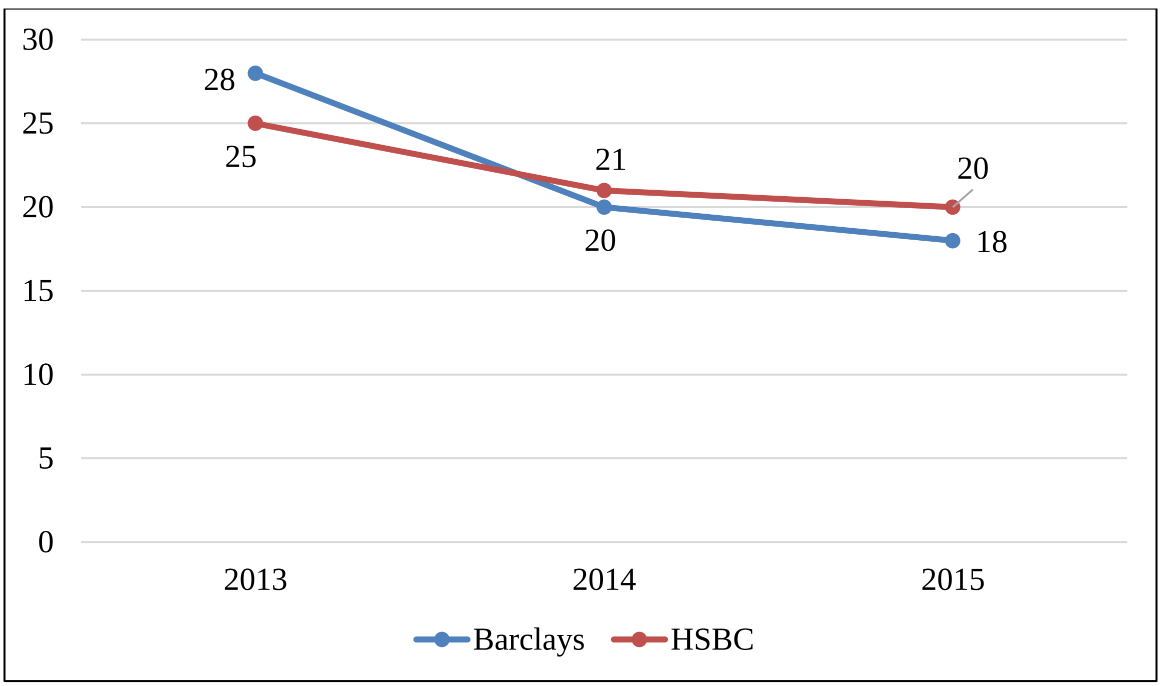

Figure 5 Number of director briefings and workshops per year
(Source: Barclays, 2013, 2014, 2015; HSBC, 2013, 2014, 2015)

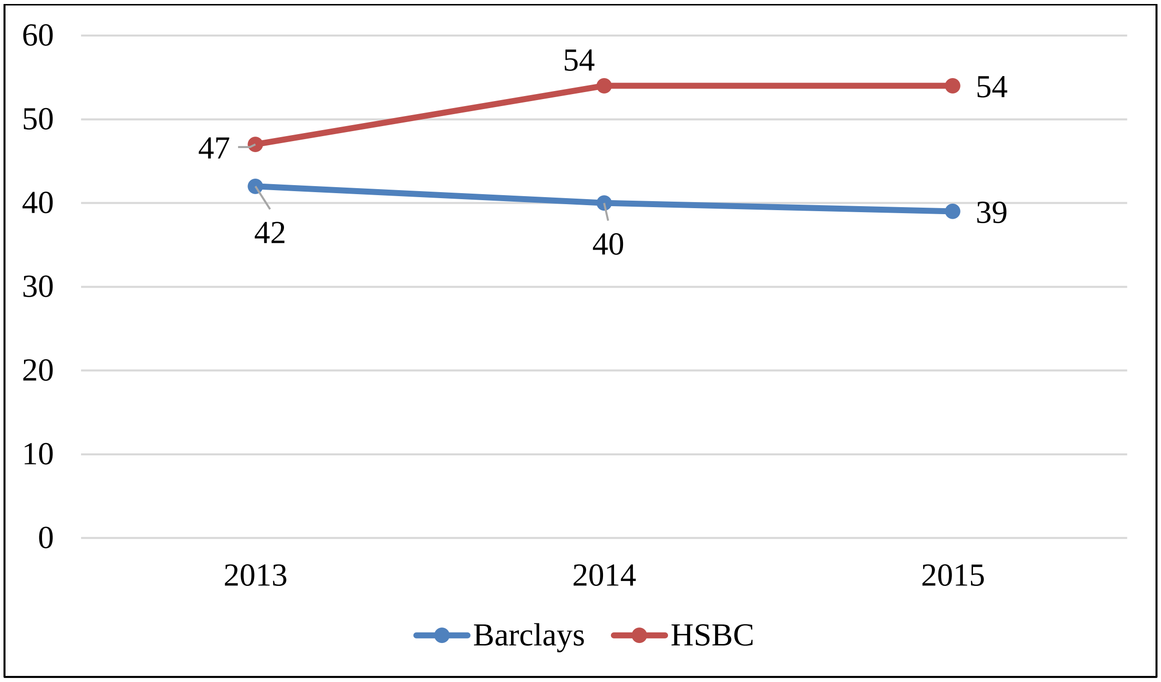

Figure 6 Number of board and committees meeting per year
(Source: Barclays, 2013, 2014, 2015; HSBC, 2013, 2014, 2015)

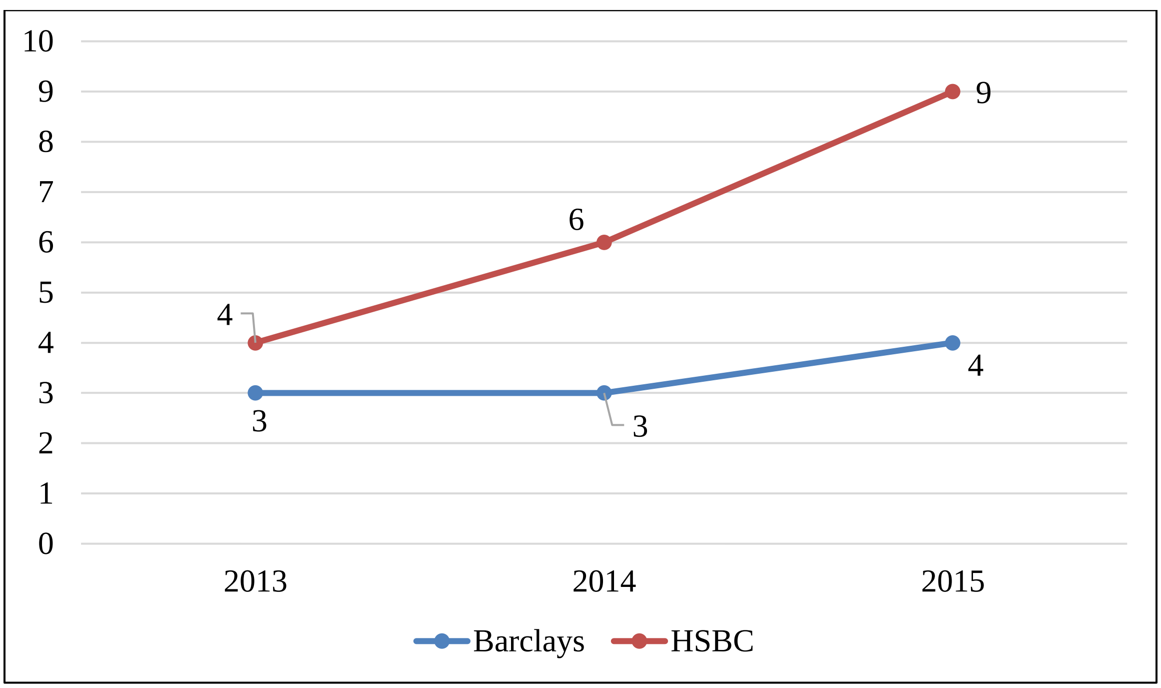

Figure 7 Number of female board directors per year
(Source: Barclays, 2013, 2014, 2015; HSBC, 2013, 2014, 2015)

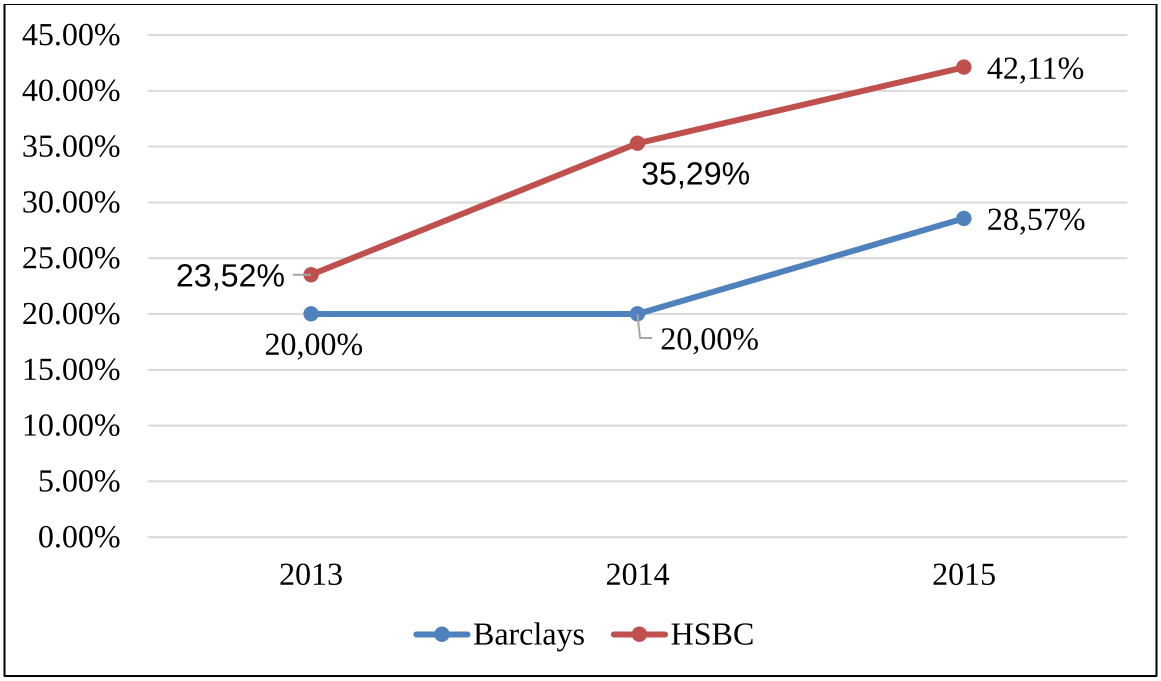

Figure 8 Percentage of female board directors of all board members per year
(Source: Barclays, 2013, 2014, 2015; HSBC, 2013, 2014, 2015)

The Conduct perspective is measured through a metric calculated by Barclays on the basis of the YouGov reputational survey. The survey tries to establish the degree of trust towards and reputation of UK financial institutions among two samples of 4,679 and 2,113 respondents (YouGov, 2013). Goold (2002) argues that trust may be a measure of what a respondent believes to be the trustee's behaviour. Savolainen and Häkkinen (2011) claim that competence may establish trust. Men (2010) demonstrates that leadership behaviour greatly influences the organisations' reputation by the public. Hence, from trust and reputation conclusions may be made about how director competence and director behaviour are perceived by the public. Figure 9 shows the percentage of respondents who believe that any changes made by the bank, including senior management proclamations, would make the bank more trustworthy.

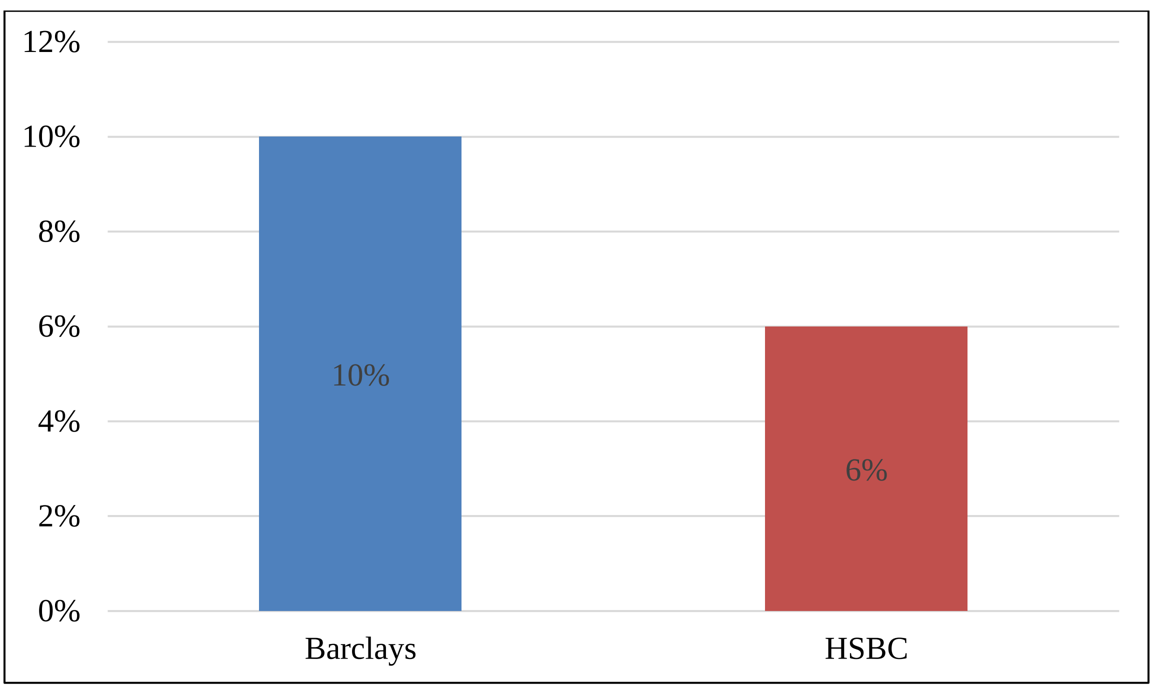

Figure 9 Percentage of YouGov respondents who believe that the banks' trustworthiness would increase following changes made by the bank, including senior management proclamations (Source: YouGov, 2013)

Figure 10 demonstrates the reputation of the banks as described by the YouGov (2013) respondents.

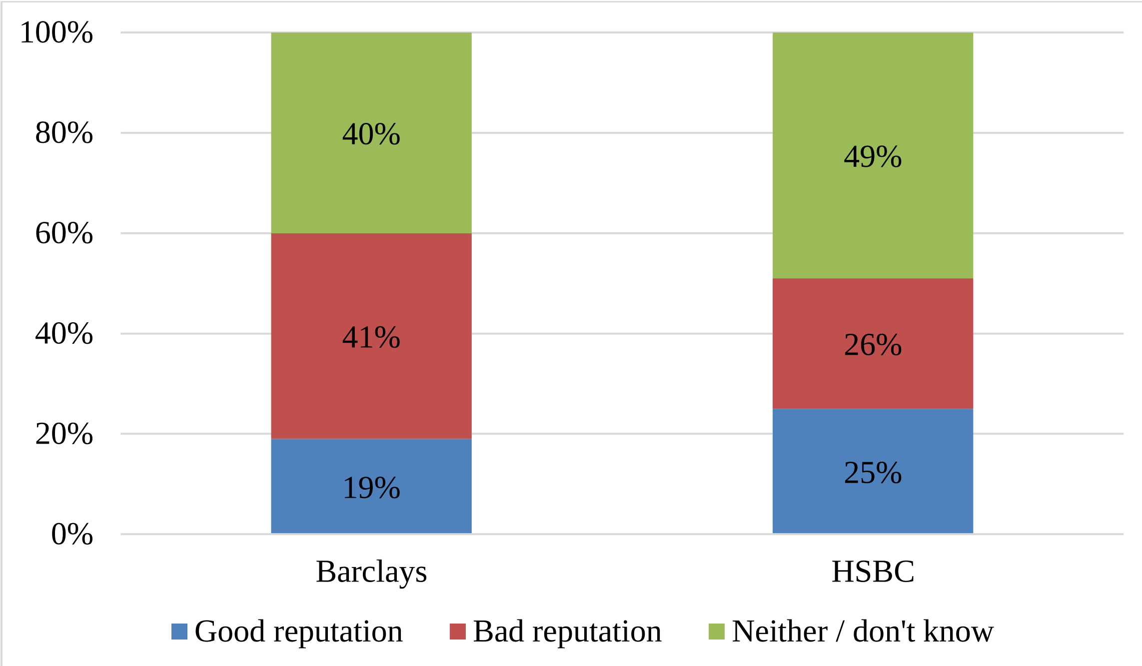

Figure 10 YouGov respondents describing the banks' reputation (Source: YouGov, 2013)

The analysis shows that HSBC outperforms Barclays on all metrics, save for trustworthiness (Table 9). Directors competence appears to be better at HSBC because of the higher number of board briefings and workshops (Table 5). Also, if gender diversity is regarded as competence diversity, HBSC performs better than Barclays in absolute numbers of female directors, and as percentage of all board members (Table 7 and 8). Furthermore, director behavior should be enhanced at HSBC due to higher empowerment and challenging work, given the higher number of board and committee meetings as compared to Barclays (Table 6). Although Barclays is regarded as more trustworthy (Table 9), the overall reputation of HSBC is higher than that of Barclays (Table 10). This is indicative for the positive perception of the HSBC leaders' competence and behaviour. Thus, it may be concluded that HSBC outperforms Barclays in director competence and director behavior, and thus in board effectiveness.

It may be interesting to assess the Barclays' balanced scorecard disclosure against the Board Effectiveness Framework. Perhaps the assessment would reveal that Barclays is outperformed by HSBC because its balanced scorecard is not aligned with the framework. In the following Table 11 reconciliation is performed between the Board Effectiveness Framework and the Barclays' balanced scorecard.

Categories of the board balanced scorecard	Determinants of board effectiveness		Barclays' balanced scorecard disclosure
	Director competence	Director behaviour	
Compliance	X	X	- "We act with integrity in everything we do" - "We understand and effectively manage our risks, and continuously improve control" - The Board "establishes the mechanisms and processes by which [it] directs the organisation, through setting the tone and expectations from the top, delegating its authority and monitoring compliance"
Accountability	X	X	- "We act with integrity in everything we do" - "We understand and effectively manage our risks, and continuously improve control"

Information flow	X		- "Ensuring colleagues have access to the right tools and resources to fulfil their roles"
Skills, Knowledge, Education	X		- "We create a diverse and inclusive environment where colleagues can fulfil their potential" - "Recruitment, promotion and performance management" - "We are developing and training leaders" - "We are driving a consistent global diversity and inclusion plan resulting in a more visibly diverse talent pipeline" - "Continuing to support our people's personal growth, (...) ensuring access to the right technical and professional development" - "Women in Leadership" Index - "Women on Boards" programme -"Enabling our diverse talent to fulfil their potential" - "We are committed to attract and retain the best talent" - "Through diversity, we gain a greater breadth of perspectives"
Communication, discussions, debates		X	- "Our colleagues are fully engaged"
Constructive, healthy, open atmosphere		X	- "Our colleagues are fully engaged"
Relationships, personal interaction		X	- "Improvements in reputation across areas of trust, openness and transparency" - "Emphasis on inclusive workplace culture" - "There will be continued improvements in (...) culture change initiatives"
Self-evaluation	X	X	The Corporate Governance Report as a part of Barclays Annual Reports states that the board annually conducts self-evaluation with support of an external service provider (Barclays 2013, 2014 and 2015).

Table 5 Reconciliation of the Barclays' balanced scorecard disclosures against the Board Effectiveness Framework (Source: Barclays 2013, 2014, 2015).

From the above reconciliation, it becomes apparent that Barclays' balanced scorecard is almost perfectly aligned with the Board Effectiveness Framework. But in such a case, should Barclays not outperform HSBC and not the other way round? The Board Effectiveness Framework entails categories which are intrinsically important, no matter which tool is used to address board effectiveness. Hence, this study claims that a company can successfully address the categories identified by the Board Effectiveness Framework without the balanced scorecard, as long as the company is committed to board effectiveness and the underlying principles.

This conclusion corresponds to the mixed findings on the implementation of the balanced scorecard by business entities. Ball et al. (2003) claims that up to 70% of companies implementing a balanced scorecard struggle to derive any benefit from its usage. This may be due to ignorance about how to use the balanced scorecard or due to its inherent flaws.

However, ignorance is unlikely to be the reason behind the findings of Ball et al. (2003). Krumwiede et al. (2008) report that the scorecard is adopted by 50% of US firms and by 40% of European companies of the Fortune 1000 corporate list. As of 15 November 2016, Google Scholar generates 139,000 academic papers with reference to "balanced scorecard" (Google Scholar, 2016a). A search request on Google generates even 1,240,000 results (Google, 2016a). The results are lower for the "board balanced scorecard". A request on Google Scholar generates 93 academic papers (Google Scholar, 2016b). A search request on Google provides 1,150 results (Google, 2016b). However, given the limits of human information process capabilities and search engine user behaviour, it may be argued that these results are sufficient to inform companies about the balanced scorecard (Georgas, 2014). Thus, it is highly probable that the business community is aware about how to use the balanced scorecard. Ling et al. (2009) have conducted a survey among 662 US public companies in order to evaluate the usage of the balanced scorecard by the board of directors, with a devastating result. A board balanced scorecard to support board evaluation and to increase board effectiveness was used by two boards only, i.e. by 0.3% of companies. These findings are in line with Conger et al. (1998) who show that board evaluation at businesses takes place irregularly. Roy (2008) provides evidence that board evaluation procedures differ widely among business entities. Therefore, it may be argued that companies refrain from adopting a board balanced scorecard due to its inherent flaws. This is all the more true if the board operates more effectively without the board balanced scorecard, as evidenced by this study.

However, research has not identified serious flaws of the balanced scorecard concept. Furthermore, the results of Ball et al. (2003) show that up to 30% of companies using a balanced scorecard do benefit from its implementation. It may be argued that few companies derive benefits from the balanced scorecard due to the short period of time that has passed since the balanced scorecard concept has entered the scene. According to the Learning-Curve Theory, more benefits may arise as time passes because management and directors become more familiar with the concept and accommodate more knowledge about it (ACCA, 2011). Since it took approximately 30 years from the French "tableau de board" in the 1960s to the balanced scorecard of Kaplan and Norton (1992) and even approximately 40 years to the board balanced scorecard of Kaplan and Nagel (2004), this may be a defensible argument.

Interestingly, despite the implementation of the balanced scorecard and a strong commitment to board effectiveness at Barclays and at HSBC, both the companies have experienced corporate governance disasters in the recent past.

Barclays has been at the very heart of the London Interbank Offered Rate (LIBOR) scandal (Preston, 2012), resulting in stepping down of the bank's the then CEO Robert Diamond (Enrich and Cimilluca, 2012) and Chairman Marcus Agius (BBC, 2012). The scandal deals with interest rate manipulation that was conducted by major banks and damaged \$300-\$554 trillions worth of loan agreements and mortgages (Hou and Skeie, 2014). According to Keenan (2012), LIBOR falsification by banks must have gone on for decades, at least since 1991. Barclays has begun implementing the balanced scorecard in the period 2012-2013, as a means to cultural change following the LIBOR investigations (Barclays, 2012). At that time Barclays strongly believed that the balanced scorecard could prevent further scandals from occurring. However, since 2015 it was facing new allegations from the New York State Attorney General of having manipulated share orders from its clients in favour of high-frequency traders (Hope et al., 2015). According to the court filings, the manipulations have occurred after the LIBOR scandal (Trotman, 2015). They finally resulted in a fine of \$70 million in 2016 (Neate, 2016a). Also, the new approach did not preclude Barclays from going ahead with a fund worth £1.88 billion constructed by the bank back in 2011 to the benefit of undisclosed politicians, thus facilitating bribery and corruption. As a consequence, Barclays was fined £72 million by the UK Financial Conduct Authority in 2015, the highest financial crime fine in UK history (Williams-Grut, 2015). Furthermore, investigations against Barclays are going on in Portugal since 2013. The Portuguese Competition Authority (PCA) suspects Barclays and other 14 banks of being in breach of antitrust legislation (Pereira and Saraiva, 2016). At the beginning of 2016 Barclays paid \$50 million to settle an investigation conducted by the New Your State Department of Financial Services. The bank was accused of having systematically rejected client trading orders which were unprofitable to the bank in 2014-2015 (Stempel, 2016). Later in 2016, investigations have been initiated against the Absa Bank Limited, a South-African subsidiary which is suspected of money-laundering. Barclays has already been fined \$640,000 by South-African authorities for money-laundering offences in 2014 (Finch and Choudhury, 2016). As if that were not enough, in 2016 Barclays came under scrutiny of the US Securities and Exchange Commission (SEC) with regard to its current employment practice of relatives and friends of Chinese governmental officials (Patrick, 2016). A legitimate question arises: has the balanced scorecard improved board effectiveness and corporate governance at Barclays?

HSBC has been accused by US prosecutors of laundering \$881 millions in favour of the Mexican Sinaloa drug cartel and the Colombian Norte del Valle cartel (Neate, 2016b). The allegations trace back to financial years 2004-2010 (Pratley, 2013). Interestingly, HSBC has reported about the balanced scorecard as a tool of director performance measurement and remuneration and as a tool of risk governance in the Annual Reports 2008-2012, covering the money laundering period (HSBC, 2008, 2009, 2010, 2011, 2012). Obviously, the balanced scorecard has not helped in preventing a major criminal act. More recently, the bank has been in the focus of the US Justice Department again. HSBC is investigated in a case of insider trading worth \$3.5 billion to the detriment of its own clients (Stevenson, 2016). Moreover, HSBC is scrutinised by the SEC similar to Barclays regarding Chinese employees who are connected to government representatives, triggering bribery issues (Patrick, 2016). The current study shows that HSBC engages a more effective board than Barclays, but, nevertheless, serious corporate governance failures occur.

These problems correspond to the recent criticism of the board balanced scorecard forwarded by Rampersad and Fawumi (2015). The researchers claim that the balanced scorecard fails to take personal integrity of directors into consideration. The argument goes that no laws, regulations or procedures can prevent an unethical person from transgression. Instead of introducing further tools like the board balanced scorecard, the focus should be on director ethics and sustainability (Rampersad and Hussain, 2014). It goes without saying that ethical behaviour should be an absolute necessary characteristic of a director. Far too often companies have been damaged and shareholder value has been destroyed by deviant managers and directors despite binding law and the adoption of governance mechanisms (Engelberg, 2016). Consequently, the second Research Question can be answered as follows:

1. Are the theoretical assumptions supported by real-life examples? A comparison of Barclays Plc(implemented a balanced scorecard) with HSBC Holdings Plc (no balanced scorecard implemented).

Answer: Barclays adopts a balanced scorecard and provides extensive narrative disclosure about the scorecard's contributions to board effectiveness. These narratives correspond to the Board Effectiveness Framework. However, Barclays is outperformed with regard to director competence and director behaviour by HSBC that does not adopt the balances scorecard. It may be concluded, that the implementation of the balanced scorecard at board level is not pre-conditional to have an effective board of directors. Instead, board effectiveness is shaped by commitment to director competence and director behaviour, not by the implementation of certain measurement tools. Therefore, the theoretical assumptions that board effectiveness should be better if the balanced scorecard is implemented, is not supported by the real-life case study. Furthermore, the commitment to effectiveness should be underpinned by ethics and integrity. Otherwise, effective corporate governance may degenerate to effective is-governance.

5. CONCLUSION

"…and, therefore, I can assure the gentlemen of the Board that there is no occasion for panic. The event of this morning is a regrettable development, but I have full confidence (…) that we will receive full and just compensation for our property." James Taggart stood at the long table, addressing the Board of Directors. His voice was precise and monotonous; it connoted safety. (…) The men sat around the long table, listening. They did not think of what they would have to do, but of what they would have to say to the men they represented. Taggart's speech gave them what they needed (Rand, 1957, p.66).

Over a span of 40 years, I have been on 19 public-company boards (excluding Berkshire's) and have interacted with perhaps 250 directors. Most of them were "independent" as defined by today's rules. But the great majority of these directors lacked at least one of the three qualities I value. As a result, their contribution to shareholder well-being was minimal at best and, too often, negative. These people, decent and intelligent though they were, simply did not know enough about business and/or care enough about shareholders to question foolish acquisitions or egregious compensation. My own behavior, I must ruefully add, frequently fell short as well: Too often I was silent when management made proposals that I judged to be counter to the interests of shareholders. In those cases, collegiality trumped independence (Monk and Minow, 2004, p. 196).

The first citation is derived from the literary masterpiece of Ayn Rand, the fictional novel *Atlas shrugged* that deals with ingenious business tycoons in a corrupted environment. It was published in 1957. The second quotation is credited to one of the most successful investors of our time, Warren Buffet, addressing the shareholders of his investment fund Berkshire Hathaway in 2002 (Monk and Minow, 2004). After half a century in between, fiction seems to have become reality. Silent, listening, but not challenging boards of directors as anticipated by Ayn Rand back in 1957 have become the struggling boards of directors of today.

For the sake of proper corporate governance, this study attempts to examine whether board effectiveness can be improved through the board balanced scorecard of Kaplan and Nagel (2004). On the basis of the Agency Theory, the study demonstrates the conflicts between the shareholders of the firm (the principals) and the professional managers employed by the shareholders to run the firm, i.e. the agents. The study rejects the Stewardship Theory in face of multiple examples of agents not being the true stewards of their principals. It incorporates the Stakeholder Theory through the Stakeholder-Agency Paradigm of Hill and Jones (1992). This makes it possible to address principle-agents conflicts and stakeholder conflicts using the methodological apparatus of the Efficient Market Hypothesis. Dropping the efficiency assumption, conflicts can be considered as adjustment processes due to power differences between market participants. These processes are complicated by the limited or false knowledge of market participants, as stated by the Bounded Rationality Hypothesis. The study identifies three approaches developed to address power differences and to broaden the boundaries of rationality. It shows that the structural approach which tries to adjust and refine corporate governance mechanisms is not supported by empirical results. Board size and board diversity, board independence and the CEO/Chairman duality do not establish a clear link with corporate governance and firm performance. The study dismisses the regulatory approach which seeks to increase and intensify regulations. It assumes that the higher compliance costs and the impeded managerial flexibility will make this approach face severe resistance. The study regards the effectiveness approach as a manageable way to improve board effectiveness through the focus on director competence and director behaviour (Leblanc and Gillies, 2003). The board balanced scorecard by Kaplan and Nagel (2004) is identified as a tool that may support the board in addressing director competence and director behaviour. The academia has proclaimed various benefits of the board balanced scorecard, which are used to develop the Board Effectiveness Framework. In a case study, the balanced scorecard in use by Barclays is tested against the Board Effectiveness Framework. Through corporate and media disclosure Barclays has widely demonstrated its commitment to the balanced scorecard concept. The test proves that Barclays' scorecard should increase board effectiveness according to academic assumptions. But a comparison of Barclays' board with that of HSBC which does not use a balanced scorecard at board level reveals that HSBC is having a more effective board of directors. Although no generalising conclusions may be drawn from a case study of two companies, it may be stated that the balanced scorecard concept falls short of academic expectations in case of Barclays. Moreover, a review of recent financial history demonstrates that both the companies have been facing corporate governance disasters for years, despite the balanced scorecard implemented on board level or any lack thereof. Rampersad and Hussain (2014) argue that no management or corporate governance tool may replace sound ethics. Hence, it may be concluded that board effectiveness should be accompanied by ethics to prevent corporate governance failure.

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