# Board Evaluation Practices Review: A First Glimpse of Philippine Listed Banks and Holding Companies

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According to Kaur and Vij (2017), board effectiveness plays a crucial role in the growth and sustainability of a company. To better deal with the growing intricacies and uncertainty in the business landscape, the role of the board has significantly shifted from mere monitoring/control to one that provides strategic value and competitive advantage for the firm they serve. This development has elevated the importance of board evaluations. Periodic board evaluation is a valuable development tool that should go beyond compliance purpose. The genuine desire to build high-performing boards that can effectively navigate, anticipate, and meet the growing challenges in its external corporate environment must be its goal. This exploratory study aims to determine the state of compliance of board evaluation among Philippine listed banks and holding companies. The findings are quite encouraging as majority of these banks and holding companies are compliant, except for the engagement of external facilitator. However, does high compliance mean that boards are becoming more effective? Avenues for improvement abound, and the future evolution of board evaluation practices lies heavily in the creation of correct awareness among regulators, companies, directors, and other stakeholders on the proper objective, design, and execution of this essential governance tool to ensure that maximum results are attained. The establishment of accreditation criteria for external facilitators may also become essential once the demand for their services on board evaluation increases.

*Keywords*: Board evaluation, board effectiveness, corporate governance

## 1 Introduction

Despite the many leaps and bounds which various corporate governance best practices have achieved over the past decades, board oversight failure persists. This phenomenon has been observed by many researchers, including Smallman (2007, p. 237) who questions whether "there is a gap between best practice theory and implementation." Although boards have significantly evolved from mere rubber stamps, Lorsch (2002, p. 1) observes that "where once directors could be called mere ornaments, today most take their responsibility very seriously and carry out their duties as best as they can, given the limits of time and knowledge."

Unfortunately, according to a 2019 PricewaterhouseCoopers (PwC) position paper written in collaboration with the Mauritius Institute of Directors (MIoD) (p. 18), "having successful individuals brought together to form a board will not guarantee that a board is successful." Examining board effectiveness from a team perspective, Jonsson and Powell (2006, pp. 13-14) highlight that while some relevant board "characteristics, such as size and diversity of boards, might make the board more focused and effective," information, and thus communication, is a critical ingredient. Directors who have access to independent sources of information "may help give them a better picture of the company and make them more independent of management," thereby enabling them to better perform their monitoring responsibilities.

Board oversight has become more complex and complicated mainly due to "the increased intricacy and uncertainty of the corporate environment." The ongoing global health pandemic is a very apt example. One ugly aspect of this contagion is its effects on the demands for goods and services. While demands for certain goods and services, such as medicines, disinfectants, and healthcare and delivery services, have swelled, demands for other goods and services have also slackened. In addition, the prolonged contagious situation has ushered the emergence of new and revolutionary delivery modes and platforms, significantly altering how operations are to be safely carried out going forward. However, this is only a small part of the so-called intricate and uncertain business landscape triggered by this pandemic. The adverse effects in the supply chains as well as other aspects of the business

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operations make it apparent and imperative that corporate boards must develop the competencies, behaviors, knowledge, and experience to deal with such ever-changing and evolving business situations to stay afloat (Petri & Soublin, 2010).

The heightened pressure from regulators and other stakeholders for the boards to reassess their accountability toward their stakeholders has also contributed to the shifting roles of the board (PwC & MIoD, 2019). From a merely monitoring/control role, boards are now expected to contribute "differentiating value" to their companies by working closely with and being strategic partners to management (Petri & Soublin, 2010). The challenge now is for boards to strike a balance between their governance and oversight role with their strategic and advisory support role to executives. As such, assessing the board performance has risen to importance, making board evaluation an important governance tool that can create long-term intrinsic value for a company. Additionally, "effective boards reduce firm risk, which in turn lower required return and cost of capital, leading to increase in firm value" (Baulkaran & Bhattarai, 2020, p. 12).

As per the Organisation for Economic Cooperation and Development (OECD, 2018, p. 11) report on Board Evaluation: Overview of International Practices, it finds that "countries that explicitly introduce board evaluation provisions in company laws, securities regulation, or corporate governance codes are more successful at increasing the number of boards engaging in formal board evaluation process." It is, therefore, the primary objective of this study to examine and verify if this is indeed the case in the Philippines, particularly for listed banks and holding companies, which have the resources to conduct such formal board evaluation. This study will provide findings on the state of compliance by Philippine listed banks and holding companies on the board evaluation provisions.

These board evaluation provisions are explicitly stated in the Code of Corporate Governance for Publicly Listed Companies issued by the Philippine Securities and Exchange Commission (SEC, 2016)[1]. Although all listed banks have complied with the annual board evaluations as required by Recommendation 6.1 (1) to (4)[2], only seven out of 15 listed banks complied with Recommendation 6.1 (5) of hiring external facilitator to support board performance assessments. Since the SEC (2016) only becomes effective on January 1, 2017, external facilitator accordingly is not required until 2020. However, due to the ongoing health crisis, many listed banks and holding companies in 2020 failed to comply with this specific provision. While there is 100% compliance by listed banks on annual board evaluation, such is not the case for holding companies. Only 21 out of 37 listed holding companies complied with these provisions. Because board evaluation requires time, commitment, and resources, it comes as no surprise that only the larger holding companies complied with Recommendation 6.1 (1) to (4). Only six out of 37 holding companies engaged external facilitator in 2020, Recommendation 6.1 (5). As to Recommendation 6.2 (1) and (2), majority of the listed banks and holding companies have complied with the larger banks and holding companies providing more details on the criteria and processes involved in board evaluation and on how shareholders can provide their feedback. But what does high compliance mean? Does it lead to more effective boards?[3]

This study also aims to share some of the criteria and processes used by larger banks and holding companies in their board evaluation exercises. Not only will the information be interesting and helpful to companies that are planning to set up their board evaluation process, but it can provide valuable insights to regulators and consultants on how the board evaluation processes can be improved as well. It should be the goal of regulators, consultants, and companies to promote high-performing boards through the conduct of periodic board evaluation. The exercise should not be for compliance only. "A properly conducted board evaluation can contribute significantly to performance improvements across three levels – organization, whole board and individual director - in terms of improved leadership, greater clarity of roles and responsibilities, improved teamwork, greater accountability,

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[1] SEC Memorandum Circular No. 19 Series of 2016. For brevity, this Code of Corporate Governance for Publicly Listed Companies will be referred to as the "2016 Philippine Code" in this paper.

[2] These specific requirements are contained in the Explanation section of the provision. However, they are separately listed in the Integrated Annual Corporate Governance Report (IACGR), a SEC-mandated annual report.

[3] Investigating whether board evaluations measure board effectiveness, Rasmussen (2015, p. 84) finds that boards perform board evaluations to conform to context only, the lowest level of accountability, because there is external pressure to do so. Under this level, directors have little knowledge about the purpose behind the exercise. Though the implemented board evaluation fails to measure board effectiveness (the highest level of accountability), it, however, allows value creation for boards.

better decision-making, improved communication and more efficient board operations" (PwC & MIoD, 2019, p. 6; Kiel et al., 2018, p. 1). Ultimately, high-performing boards that create differentiating value for companies will not only survive and maintain their long-term sustainability but also more importantly positively contribute to the economy as a whole and in the long-run.

Extant studies find that board effectiveness can be extracted from board demographic variables in the form of board diversity. Many larger Philippine banks and holding companies have boasted on the diversity of their boards in their annual reports. The Conference Board (2020, para. 6) emphasizes that to maximize board effectiveness, companies should recruit not only a diverse board but also "a demographically and cognitively diverse board." Aside from board size and composition, this study tabulates and presents board diversity data in terms of gender, age, educational background, work experience, and tenure. Some existing literature find that exposure to international setting whether in terms of education or work experience provides a "well-rounded" director. The training of "speaking your mind" in an international context or understanding and knowing the acceptable culture or norms when doing business in another country can be quite valuable, particularly if the corporation plans to expand its market geographically. Lastly, the resource dependence theory states that directors provide external linkages to corporations they serve. Having directors who worked at government or public office/s can not only provide advisory expertise but also facilitate communication with external organizations. Hence, these two additional dimensions are also examined in the study.

## 2 Literature Review

Despite the adoption of corporate governance code in many countries, corporate scandals and failures still abound. These "recurrent crises in corporate governance have altered board practices and created policy pressure to assess the effectiveness of boards" (Booth & Nordberg, 2021, Abstract). With increased accountability and transparency, "boards have currently become the most critical component in improving corporate governance" (Goyal et al., 2019, Abstract). As the realization that boards need to be "effective" in their governance role to enhance their accountability to their investors and stakeholders, focus on board evaluation has gained importance. In fact, "board evaluations have emerged as an important tool in public policy and corporate practice for enhancing board effectiveness" (Nordberg & Booth, 2019, Abstract). "When done properly, board evaluations can be valuable tool that leads to significant value creation opportunities for firms" (OECD, 2018, p. 16).

According to a position paper published by PwC with MIoD, "the main objective of a board evaluation should be a genuine desire to build a high-performing board, which is equipped to anticipate, meet and overcome future challenges and to ensure alignment with the company's long-term strategy" (PwC & MIoD, 2019, p. 6). A high-performing board is a necessary ingredient to ensure a company's long-term success and sustainability. However, the "lack of guidance on how to conduct board evaluations" impedes fostering board effectiveness (PwC & MIoD, 2019, p. 5). Moreover, an understanding of board effectiveness emanates from the functionality of the board. According to Ong and Wan (2008) as cited in Sur (2014, p. 165), "the effectiveness of a team cannot be assessed without considering which function or functions does the team perceive to be its objective."

### 2.1 The Roles of the Board

The main roles of the board are generally divided in two principal categories[4] in the business literature: control and counsel (sometimes referred to as advisory/service/support) (Forbes & Milliken, 1999; Goyal et al., 2019; Jansen, 2021; Minichilli et al., 2012; Nordberg & Booth, 2019). While there have been conflicting observations that these roles can be complementary (Westphal, 1999) or conflicting (Krause et al., 2014), more recent researches advocate the integration of these functions (Sur, 2014; Zahra & Pearce, 1989). Sur (2014) argues that this "combined" functionality model better represents the board's overarching objective function since these roles should not only be confined to

[4] He et al. (2020) discuss three board roles: monitoring, strategic support, and resource provider which arise from agency, stewardship, and resource dependence theory, respectively. Goyal et al. (2019, p. 115) state that the "primary roles of boards vary depending on corporate governance regimes and contextual settings of boards" and that there are "broad consensus among scholars of corporate governance that the monitoring role, resource-provisioning role and service role are performed by most boards."

monitoring but also encompass active or strategic counsel to add genuine value to a firm. In fact, Deshani and Ajward (2021) and He et al. (2020) observe that boards can play several roles simultaneously. For example, Goyal et al. (2019) pointed out that the mentoring and advising and the monitoring of the executives should be responsibilities of the chairperson and nonexecutive directors (NEDs), respectively.

While monitoring/control has been the dominant role of the board mainly due to the prevalence of the agency theory, contemporary governance studies find that the board's advisory/counsel role has become more relevant and critical, particularly for companies that operate in uncertain, fast-moving, and highly competitive global markets" (PwC & MIoD, 2019; OECD, 2018, p. 7). To attain long-term success and sustainability, corporate boards are now advised against devoting majority of their time "discussing issues related to past performance and regulatory compliance" (OECD, 2018, p. 5). Instead, board should be working closely with management, providing support and resources on how to build the competitive advantage of the firm in terms of innovation and value creation. "Many companies now recognize that the monitoring role of the board is no longer adequate and that merely focusing on this role will lead to a missed opportunity" (OECD, 2018, p. 4). Deshani and Ajward (2021, p. 16) stress that "agency theory alone cannot guarantee effective board behavior without paying significant attention to other organization factors." Aside from human capital, directors' social capital[5] is considered one of the most valuable attributes, a critical strategic resource that can give the company a competitive advantage (Deshani & Ajward, 2021).

## 2.2 Defining and Measuring Board Effectiveness

Situated "at the apex of the internal control mechanism, the governing boards play a central and critical role in making corporate governance effective" (Goyal et al., 2019, p. 114; Kang et al., 2007; OECD, 2018). Consequently, board role and their effectiveness have been popular and persistent topics in the corporate governance literature. However, no consensus on various aspects of these topics have been reached. According to Sur (2014, p. 162), not only is there "no agreement on the primary function of the board (i.e. monitoring or resource providing) but which aspect of boards is of importance (e.g. demographics, insider-outsider composition, leadership structure, or board dynamics)." Beyond these issues lie more profound queries[6] of whether the efficacy of boards contributes to a firm's performance, and if so, how should board effectiveness be measured? Should board effectiveness be measured based on strategic outcome or financial performance? What are the variables or factors affecting board effectiveness?

Based on available public data, prior research on board effectiveness has focused on how observable board characteristics, such as size, composition, board leadership, board compensation and incentives, and even board diversity, affect firm financial performance or specific public actions and outcomes (Cheng et al., 2021; Sur 2014). Unfortunately, results from these studies have been mixed and inconclusive, failing to clearly identify which demographic characteristics lead to which outcome. This is confirmed by the meta-analyses work of Dalton et al. (2003), Dalton et al. (1998), and Dalton et al. (1999).

Recent studies recognize that not only does the "work of boards involves complex interactions of individuals" (Van den Berghe & Baelden, 2005, as cited in Nordberg & Booth, 2019, p. 373), but it is also inherently difficult to observe the effectiveness of corporate boards owing to issues of access and confidentiality (Adams et al., 2010). These difficulties stem from current board processes and/or board dynamics. For instance, it is observed that selecting and hiring of qualified directors to assemble

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[5] Nicholson and Kiel (2004, p. 12) provide an intellectual capital model of the board. In this model, intellectual capital comprises the human capital (knowledge, skills, and abilities of the directors), structural capital (process, procedures, routines, and practices), and social capital (board internal dynamics, board management, and board external reach). The model shows how intellectual capital affects the board performance of their various roles, thus affecting board effectiveness and eventually firm performance.

[6] Providing an orienting framework in a special issue of Organization Science, Hambrick et al. (2008, p. 382, 384 & 385) discuss new avenues for research, such as directors' motivations to serve on boards, "how power differentials within the board can affect board processes and outcomes", and how directors' conceived "identities" influence their behaviors in the boardroom", just to name a few, that are expected to advance and enhance "understanding of both the antecedents of governance practices and their consequences."

a well-balanced board do not automatically guarantee a high-performing and effective board. Hence, board processes and board dynamics have become vital key variables in the study of contemporary board effectiveness. Sonnenfeld (2004, p. 112) points out that "the human side of governance" is the missing link in improving corporate governance and that "the human dynamics of boards as social systems … will truly differentiate a firm's governance." Nicholson and Kiel (2004, p. 12) propose their intellectual capital model, showing the link on how board intellectual capital affects the performance of their roles, which in effect impacts on board effectiveness and firm performance. Moreover, Hambrick et al. (2008) consider "behavioral processes" as a main determinant of governance at the micro-level analysis. Beyond board demographics and dynamics, "lateness in sending the board pack as well as the large quantity of content in the pack can adversely affect board effectiveness" (Zattoni et al., 2012, as cited in PwC & MIoD, 2019 p. 10).

Recognizing that an effective board goes beyond board demographics, board effectiveness is broadly defined in the literature as "the strategic outcome of the board's decision-making processes or the ability to achieve its functional objectives effectively" (Sur, 2014, p. 166). Similarly, Aguilera (2005), Nicholson and Kiel, (2004), Psaros, (2009), & Pye and Pettigrew, (2005) as cited in He et al. (2020, p. 2) and Jansen (2021, p. 1340) describe board effectiveness simply as "the board's ability to add value to a firm through fulfilling its roles" and "the board's ability to successfully carry out its board roles," respectively. Notably, these definitions relate board effectiveness to the fulfillment of its various roles and not solely on its monitoring function. While there is general agreement as to its definition, there is no general consensus on how the variables promoting board effectiveness should be measured. Since board effectiveness is concerned about the successful fulfillment of board roles, extant literature has equated it to various dependent variables such as board task performance (Cheng et al., 2021; Goyal et al., 2019; Minichilli et al., 2012; Sur, 2014), firm performance (Conheady et al., 2015), firm's investment efficiency (He et al., 2020), and lower firm risk (Baulkaran & Bhattarai, 2020). Some studies on nonprofit organizations associate board effectiveness to innovation (Jaskyte, 2018) and entrepreneurial orientation (Deshani & Ajward, 2021). Rasmussen (2015, p. 80), using the case study method in investigating the extent on how board evaluations "in Norwegian listed companies contributed to board effectiveness, measures the latter employing the three levels of accountability, namely, board performance, conformance to content, and conformance to context". Because many of these companies perform board evaluations in compliance with the Norwegian Code and directors do not know the rationale behind the said exercises, Rasmussen finds that board evaluations are performed in conformance to context, which is the lowest level of accountability, and fails to measure board performance, which is the highest level of accountability.

Many researchers have questioned the appropriateness of measuring board effectiveness in terms of firm performance (Dalton et al., 2003; Dalton et al., 1999; Forbes & Milliken, 1999; Dalton et al., 1998; Zahra & Pearce, 1989). For instance, Zahra and Pearce (1989) find that board processes, as an intermediate variable of strategic outcomes between board variables (attributes and roles) and firm performance, explain how board variables can affect firm performance. They claim that the "process variables are important in explaining how board contributes to strategy, exercise control and make executive compensation decisions" (Zahra & Pearce, 1989, p. 324). Pettigrew (1992, p. 171) added that there is a missing link between input variables such as board composition to output variables such as board performance, arguing that there is "no direct evidence on the processes and mechanisms which presumably link the input to the output." Kesner and Johnson (1990) as cited in Johnson et al. (1996) also note this "lack of direct relationship between board variables and firm performance". The seminal work of Forbes and Milliken (1999), a model on board processes based on group dynamics and workgroup effectiveness, provides valuable input to the further understanding of how board level effectiveness can eventually result in firm level financial performance. It should be emphasized though that recent studies on board do not completely disregard board demographic characteristics as variables to be considered. In fact, Jansen (2021) includes board demographic variables as control variables in his model.

Although the dimensions of board processes are defined differently in the literature, they generally refer to the approaches that the board takes in making decisions (Zahra & Pearce, 1989). Mueller (1979) and Vance (1983) as cited from Zahra and Pearce (1989, p. 307) use five dimensions of board processes, namely, "frequency and length of meetings; CEO-board interface; level of consensus among directors on issues at hand; formality of board proceedings; and the extent to which the board is involved in evaluating itself" and show how these board processes affect board's performance and, ultimately, firm performance. In their more parsimonious model, Forbes and Milliken (1999, p. 498) have the following as their board processes: effort norm, cognitive conflict, and use of knowledge and skills. Their model further enhanced Zahra and Pearce's (1989) integrative model by explicitly specifying and differentiating board-level and firm-level outcomes. Board-level outcomes comprise of task performance (board performance of its roles) and board cohesiveness. These board-level outcomes determine firm-level outcome (firm performance). Many of the board processes are group-level construct, where board dynamics and interactions are hopefully captured.

He et al. (2020, Abstract) developed a conceptual framework that look at "board potential and board dynamics as key ingredients to board effectiveness in terms of firm's investment efficiency". Apparently, board potential, which includes the knowledge, skills, experience, and social networks brought in by directors, refers to board attributes/variables while board dynamics or the interactions among directors and among directors and top management pertains to board processes (He et al. 2020). While social interactions are central to board dynamics, it is the board intellectual capital, a composite of board- and director-level factors, which contributes to effective decision-making (Nicholson & Kiel, 2004). Similarly, He et al. (2020, p. 2) observe that "board potential determines the board's task-solving potential while board dynamics determines the extent to which board potential can be utilized for investment decision making." Both factors are equally critical in determining board effectiveness. This coincides with the findings of Jonsson and Powell (2006) as well as Macus (2008), contending that board effectiveness depends on the individual and collective ability of directors to integrate resources (knowledge, skills, and information) in the face of problems and challenges faced by the company. Jansen (2021), on the other hand, finds that board processes are stronger determinants of board role performance and ultimately board effectiveness than board structural characteristics. His finding concurs with the survey finding of Minichilli et al. (2012, Abstract), which find "board processes are stronger predictors than demographic variables in explaining board task performance" or the fulfillment of board roles.

Many of the recent literature on board effectiveness and governance prescriptions adopted by various companies around the world has centered on board diversity. "Board diversity is increasingly being recommended as a tool for enhancing firm performance" (Goyal et al., 2019, Abstract). Philippine listed companies, particularly banks and holding companies, have joined the bandwagon movement. However, Jonsson and Powell (2006), who investigate an effective board from a team perspective, caution blindly equating board diversity with better board and/or firm performance. "Diversity may simply not be the right criteria for selecting teams or boards" (Jonsson & Powell, 2006, p. 13). Although the link between greater level of diversity in a team and better performance lies in the team making informed decisions that take multiple perspectives, other board characteristics, such as size and communication, play a crucial role as well (Jonsson & Powell, 2006, p. 10). According to Jonsson and Powell (2006, p. 10), "while there is no optimal size for teams as the purpose and the tasks of teams vary considerably, size serves as a practical limitation. Within this limitation, the team with the most knowledgeable individuals, with the lowest level of knowledge overlap form a team with a maximum knowledge base." In addition, "communication is vital to team performance. There is no point having large amounts of knowledge in a widely diverse team, if they do not communicate and bring this knowledge together to address the problem at hand" (Jonsson & Powell, 2006, p. 11). They (2006, p. 12) also point out that boards do not spend enough time together to form and act as effective teams. Lastly, they (2006, p. 11) claim that the network of contacts that a diverse group of people have access to is more important than the knowledge they bring to the team as this allows for independent sources of information, making the boards less dependent on management for information critical for informed decisions. In summary, they (2006, p. 13) state that most boards can become better by deciding on the role they are supposed to fulfill, taking their tasks seriously, and minimizing the hurdles that stand in the way of the board of doing its job effectively.

Board diversity is defined by Jaskyte (2018, p. 1100) as "the degree to which a board is heterogeneous with respect to informational and demographic attributes." Board diversity is embodied in numerous aspects. It is not the intent of this study to provide comprehensive attributes of board diversity but to highlight some of its salient features. Common forms of diversity include age, gender, race, educational background, and functional background (Wiersema and Bantel, 1992, as cited in Jaskyte, 2018, p. 1100). Majority of research has focused on diversity in terms of age, gender, and race (Wiersema and Bantel, 1992, as cited in Jaskyte, 2018, p. 1100). More important than age, Arzubiaga et al. (2017) find that differences in generational involvement have special influence on family firms. Specifically, Underwood (2020, p. 5) observes that "generational differences can either tie a board in knots and diminish its governance performance or deliver rich and varied insights, ideas, and effective governance solutions, because all directors bring unique generational strengths and weaknesses and powerful core values to their minute-by-minute, month-by-month decision making." Another controversial finding related to age is advanced by Brandes et al. (2021). They claim that "retired independent directors" or RIDs are associated with better fulfillment of board roles that ultimately results in greater firm performance. This is because without the demand of a full-time job, the increased time availability of RIDs allows them to better fulfill their resource provisioning and monitoring roles, leading to better firm performance.

Interviewing FTSE 350 board directors, Goyal et al. (2019, Abstract) warn that beyond the gender and ethnic characteristics of directors, diversity of functional experience is a more important requirement for boards successfully fulfilling their roles, emphasizing that "functionally diverse boards manage external dependencies more effectively and challenge assumptions of the executive more efficiently". In the same token, The Conference Board (2020) encourages public companies to improve both the demographic and cognitive diversity in their boards. In this way, boards are better equipped to guide the company they serve to compete, innovate, and respond to the current challenging business landscape. While demographic diversity pertains to gender, age, race, and ethnicity, cognitive diversity refers to the new skills, experiences, perspectives, and approaches to problem solving contributed by individual directors (The Conference Board, 2020). Cognitive diversity complements demographic diversity. However, to fully reap the benefits of a diverse board, not only should company culture embrace diversity per se but "the sharing and consideration of diverse perspectives" should be encouraged as well (The Conference Board, 2020, para. 6). Appendix A shows the evolution of board effectiveness variables.

Focusing on how board attributes and processes contributes to organizational innovation, Jaskyte (2018, p. 1100) find that the "personality and industrial and professional background [of directors] are especially relevant." She argues that diversity can promote innovation in an organization as the broad base of knowledge, skills, and information allow for "better understanding of the external environment, produce more effective problem solving, provide diversity of information sources, enhance the effectiveness of leadership by providing a broader perspective on a variety of issues and help secure critical resources" (Jaskyte, 2018, p. 1100). On the other hand, too much diversity can be detrimental to board dynamics as it can lower the degree of social integration, increase conflict, and cause communication and coordination complications (Jaskyte, 2018). Similar conclusion is reached by studies on teams (Jonsson and Powell, 2006; Ancona & Caldwell, 1992). Jonsson and Powell (2006, p. 10) emphasize that while "diversity increases the team knowledge base, thereby providing the potential for superior insights, on the other hand, it also reduces the shared interpretive scheme making it increasingly difficult to integrate the knowledge that the team possesses." They explain that while diverse team can arrive at a superior solution, implementing the solution becomes more challenging, thus resulting in implementation becoming inferior.

Petri and Soublin (2010) share a useful depiction of how board can evolve to "world-class" board. From a predominantly process-driven board, merely satisfying core governance and compliance requirements, "world-class" board is behavioral-driven, with high-performing board becoming strategic asset of the company. To become strategic asset of the company, board should possess in-depth knowledge and diverse insights for it to pursue future-oriented goals. More importantly, it must be willing to explore and undertake steps for board development to remain relevant in the fast-changing business environment.

## 2.3 Importance and Critical Features of Board Evaluation

According to Kiel and Beck (2006, p. 588), "the challenge for boards today is to add value to the organizations they govern. Performance evaluation is a means by which boards can ensure they have the knowledge, skills and ability to meet this challenge." This governance tool is considered developmental in that it goes beyond just assessing performance with an overriding motivation to instill improvement of performance. Boards, which are committed to regular evaluation process, benefit from improved leadership, greater clarity of roles and responsibilities, improved teamwork, greater accountability, better decision-making, improved communication, and more efficient board operations (Kiel et al., 2018; PwC & MIoD, 2019, p. 6). More importantly, these benefits ultimately contribute to improved financial performance (Minichilli et al., 2007). However, an "incorrectly executed evaluation can lead to distrust among board members and between the board and management" (Kiel & Beck, 2006, p. 588), eroding cohesiveness. Boards taking a compliance-oriented approach prevents a true examination of the hindrances to board effectiveness, losing the opportunity to identify and remove obstacles to better performance and to highlight best practices (Au et al., 2012, para. 2-3). Similar to any performance appraisals, Daily and Dalton (2003, para. 2) observe that "few individuals enjoy the scrutiny of the evaluation and even fewer appreciate receiving critical feedback".

Two prevailing frameworks for a board evaluation are provided in Table 1. These delineate the critical features of a board evaluation system and show that there should be a fit between purpose and board evaluation system for it to be effective. Minichilli et al.'s (2007, Abstract) four-step process is aptly encapsulated in this statement: "it is important to know who is doing what for whom and how."

**Table 1. Framework for Board Evaluation**

| Seven-Step Process (Kiel & Beck, 2006) | | Four-Step Process (Minichilli et al., 2007) | |
|---|---|---|---|
| 1. | What are our objectives? | 1. | Who should do the evaluation? |
| 2. | Who will be evaluated? | 2. | What should be evaluated? |
| 3. | What will be evaluated? | 3. | For whom should the evaluation? |
| 4. | Who will be asked? | 4. | How should the evaluation be done? |
| 5. | What techniques will be used? | | |
| 6. | Who will do the evaluation? | | |
| 7. | What will you do with the results? | | |

One major challenge in conducting board evaluation lies in deciding "who should do the evaluation." Since board occupies the highest corporate hierarchy, board evaluations are usually done by the board itself (internal) or by an external facilitator.[7] Nordberg and Booth (2019), however, identify three bodies qualified to do board evaluation: self-assessment,[8] external facilitator, and chairperson. While Minichilli et al. (2007) find that self-evaluation can be a valuable tool for improvement as it allows for self-reflection and Kiel and Nicholson (2005) agree that internal evaluation permits open and honest feedback, Ungureanu (2013) warns that it can prevent candid discussion on problematic board dynamics. While self-assessment is less costly and offers confidentiality from outsiders (Kiel & Nicholson, 2005), it remains doubtful whether boards can attain objectivity or impartiality when conducting self-evaluation (Adegbite, 2015; Nordberg & Booth, 2019). These concerns prompt for the use of external facilitator in board evaluation (Nordberg & Booth, 2019; Sobhan & Adegbite, 2021).

Although more costly, external facilitation minimizes the self-serving bias of self-assessment (Long, 2006). Policymakers also find that "outside experts without vested interest but who understand group dynamics" are better positioned to conduct board evaluations, except that they "need to be alert to politics within the group and the history of the dynamics informing the relevant relationships" (Nordberg & Booth, 2019, p. 377). More than assessing board performance, it is suggested that external facilitators should act as "coaches," guiding the board and its members toward optimum performance (Ensminger et al., 2015). Kiel and Beck (2006) observe that only mature boards opt for external evaluation.

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[7] Board evaluations may be classified as self-evaluations or external evaluations. While self-evaluations are typically coordinated by either the chairperson, the governance committee chair, or the lead independent director, external evaluations are carried out by an external third party. Kiel and Beck (2006, p. 591-592) note that "specialist consultants or general advisers with expertise in the areas of corporate governance and performance evaluation usually handle the external evaluations."

[8] Self-assessments can be supplemented and complemented by peer assessments (Nordberg & Booth, 2019) and interviews (Kiel & Beck, 2006).

Though there is broad consensus that board evaluations entail the reviewing of performance of three major groups[9]—the board as a whole, individual directors, and key governance personnel (Kiel & Beck, 2006)—what will be evaluated depends heavily on the purpose of the board evaluation. Nordberg and Booth (2019) pinpoint four main areas for assessment, namely, director characteristics, board characteristics, board processes, and task performance.[10] While some of these aspects can be assessed at a distance, without direct access to the boardroom, many, specifically those related to behavior and social skills, require observation or personal assessment. Board processes are generally difficult to investigate (PwC & MIoD, 2019). Nordberg and Booth (2019, p. 3) emphasize that while "effort norms can be gathered from disclosures of attendance at board and committee meetings", such data are incomplete (Ji et al., 2020). Moreover, how directors use the "mix of knowledge and skills cannot be captured in any accessible public documents" (Ji et al., 2020, p. 7). Cognitive conflict, which is often deliberately hidden from outsiders, is revealed only during business failures or when board cohesiveness disintegrates (Nordberg & Booth, 2019).

Regular board evaluations are generally recommended to be done yearly[11] with externally facilitated ones done less frequently, such as every three years. It has been suggested by Kiel and Beck (2006, p. 592) that board evaluation should be an ongoing process, not just an annual exercise. As to how the board evaluation will be conducted, Kiel and Beck (2006, p. 591) state that "depending on the degree of formality, the objectives of the evaluation and the resources available, boards may choose between a range of qualitative and quantitative techniques." In fact, the 2012 Spencer Stuart article (Au et al., 2012, p. 2) emphasizes that the boards should agree on the purpose and objectives for the assessment. Only then can it "encourage board members to commit time to the process and provide the candid feedback that is essential to identifying and addressing potential roadblocks to board effectiveness" (Au et al., 2012, p. 2). Moreover, "a board evaluation must be tailored to the company's current business context and include any relevant issues to be most effective" (Au et al., 2012, p. 2). Deloitte (2014, p. 5) concurs that "the process is usually tailored to the requirement of the company, the specific situation it is in, the stage of the company's life cycle, the corporate structure, the board culture and the embedded processes." It further warns that "there is no common format, which is universally acceptable and application to all companies" (Deloitte, 2014, p. 5).

The most common method to gather quantitative data uses surveys, which are attitudinal instruments, while the three most typical techniques to collect qualitative data employ interview, board observation, and document analysis. Although quantitative data are specific and measurable, they lack the richness that qualitative data provide. However, Kiel and Beck (2006) warn about the difficulty in interpreting qualitative data as a major drawback. Aside from the need to employ experienced researchers to conduct/design, collect, and interpret qualitative data, various participants are required to review the qualitative data gathered to prevent bias. Bias can, however, be mitigated by applying both quantitative and qualitative techniques (Goltser & Sharma, 2020; Kiel & Beck, 2006; Daily & Dalton, 2003).

Lastly, what should be done with the results from board evaluation? Who within the firm needs to know the results? Kiel and Beck (2006, p. 592) clarify that

> "where the evaluation objectives are focused entirely on the board, board members will simply discuss the results among themselves ... where the results of the evaluation concern individual director performance, the generally accepted approach is for the chairperson and/or facilitator to discuss them individually with each director … where the objective of the board evaluation is to assess the quality of board management relationships, results of the evaluation will generally be shared with the senior management team. Some organizations choose to communicate a summary of the board evaluation results more widely in the organization."

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[9] PwC & MIoD (2019) identify four main groups to be evaluated: board itself as a collective body, committees, individual directors, and the chairperson. Chairperson's evaluation is an essential component given his/her contributions to both the functioning of the board and performance of each director.

[10] Deloitte (March 2014, p. 4) publishes an article on the performance evaluation of boards and directors. In this article, Deloitte specifies four parameters of board evaluation, including board's role in governance, board structure, dynamics and functioning, and financial reporting process, internal control, and risk management.

[11] OECD (2018) and PwC & MIoD (2019) observe that frequency of evaluation varies depending on jurisdictions while countries like Italy, the Netherlands, and UK recommend for yearly board evaluation.

They further point out that "communicating the results of the evaluation demonstrates that the board takes governance seriously and is committed to improving its performance" (Kiel & Beck, 2006, p. 592). Deloitte (2014, p. 5) emphasizes that "to be a meaningful exercise, the outcomes must result in an actionable plan." While Daily and Dalton (2003) agree that the deficiencies noted through the evaluation process should be properly addressed, they believe that only the process, and not the results, should be shared to the public.

Undoubtedly, the benefits of a properly conducted board evaluation are not only numerous, but Adegbite (2015) notes that when board evaluation is well-executed, its benefits also often outweigh its associated challenges. But beyond its performance improvement goal, it is seen to be "an effective team-building, ethics-shaping activity" that can foster a positive board and organization culture (Kiel & Beck, 2006, p. 592). Kiel and Beck (2006) stress that to reap the full benefits of board evaluation, "engaging the board is as important as the content."

Conceptually, the intellectual capital model of the board as proposed by Nicholson and Kiel (2004, p. 12) and Rasmussen (2015, p. 85) eloquently depicts how board evaluation (the tool) can be a valuable governance tool in analyzing how board characteristics and attributes, board processes, and dynamics (the factors) can affect board effectiveness (the consequence) and board/firm performance (the outcome).

## 2.4 Requirements of Current Board Evaluation According to Codes of Corporate Governance

In the aftermath of the global financial crisis of 2007-2009, "annual assessments have become the norm for boards in many countries, with nearly all listed companies in Canada, France, the United Kingdom (UK), and the United States (US)" according to a Spencer Stuart article (Au, 2012, para. 1). It observes that this practice has been gaining widespread adoption in many European and Asia Pacific countries. A growing number of countries has also followed the lead of the UK, incorporating in their code of corporate governance the use of external facilitators to achieve greater objectivity in board evaluations (Norberg & Booth, 2019). Not only do the codes of corporate governance at various jurisdictions recommend that an annual assessment of the board performance, including its individual directors, chairperson, and committees, be conducted, but also externally facilitated board evaluation is proposed to be done every three years as per Provision 21 (FRC, 2018). While the 2010 UK Corporate Governance Code limits external facilitation to only the larger listed companies, specifically those in the FTSE-350 index, the 2018 version extends this recommendation to all companies (FRC, 2010, 2018). In addition, a fuller disclosure of how evaluations were conducted, including the nature and extent of an external evaluator's contact with directors, the outcomes, and action taken, is proposed to be presented in the company's annual report (FRC, 2018, Provision 23).

## 2.5 What Are the Board Evaluation Provisions in the Philippines?

In the Philippines, these board evaluation provisions are explicitly stated in the SEC (2016). Specifically, these board evaluation provisions are:

"Recommendation 6.1

The Board should conduct an annual self-assessment of its performance, including the performance of the Chairman, individual members and committees. Every three years, the assessment should be supported by an external facilitator.

1. Board conducts an annual self-assessment of its performance as a whole.
2. The Chairman conducts a self-assessment of his performance.
3. The individual members conduct a self-assessment of their performance.
4. Each committee conducts a self-assessment of its performance.
5. Every three years, the assessments are supported by an external facilitator.

Recommendation 6.2

The Board should have in place a system that provides, at the minimum, criteria and process to determine the performance of the Board, the individual directors, committees and such system should allow for a feedback mechanism from the shareholders.

1. Board has in place a system that provides, at the minimum, criteria and process to determine the performance of the Board, individual directors and committees.
2. The system allows for a feedback mechanism from the shareholders."

Although the Revised Corporation Code of the Philippines (Congress of the Philippines, 2019) does not have a board evaluation provision, Section 49, however, states that, "At each regular meeting of stockholders or members, the board of directors or trustees shall endeavor to present to stockholders or members the following:

(f) Director or trustee profiles which shall include, among others, their qualifications and relevant experiences, length of service in the corporation, trainings and continuing education attended, and their board representation in other corporations;
(g) A director or trustee attendance report, indicating the attendance of each of the meetings of the board and its committees and in regular or special stockholder meetings;
(h) Appraisals and performance reports for the board and the criteria and procedures for assessment;
(i) A director or trustee compensation report prepared in accordance with this Code and the rules the Commission may prescribe;
(j) Director disclosures on self-dealings and related party transactions; and/or
(k) The profiles of directors nominated or seeking election or reelection."

## 3 Sample and Methodology

Since this is an exploratory study to determine the state of compliance for Recommendations 6.1 and 6.2, only listed banks and holding companies are included in the sample. This is because these two sectors, which are involved in high-risk business operations and environment, will have not only the resources but also the need to comply with best corporate governance practices given the nature of their operations. The complete list of Philippine listed banks and holding companies is extracted from the Philippine Securities Exchange (PSE) website. Suspended banks and holding companies are excluded. Information related to Recommendations 6.1 and 6.2 are extracted from the 2020 Integrated Annual Corporate Governance Report (IACGR). As per the support or linkages indicated in the 2020 IACGR, the Manual on Corporate Governance (MCG) of the company is reviewed in relation on board evaluation process and criteria. Additional information on board evaluation obtained from company websites, if available, were added. Both the 2020 IACGR and the 2020 SEC 17-A of the companies in the samples are obtained from either the company's website or the PSE Edge portal. The annual report[12] of the companies as well as their latest MCG are obtained from the company website when available and/or when cited as support in the 2020 IACGR.

Aside from determining the degree of compliance by the companies in the two samples on Recommendations 6.1 and 6.2, comparison of these two recommended practices with other ASEAN countries is also performed. This comparison provides a more complete picture of the state of compliance by Philippine listed banks and holding companies on board evaluation requirements vis-à-vis its ASEAN neighbors. While there are currently 10 ASEAN member countries,[13] comparison is conducted on the five original ASEAN countries.[14] The latest code of corporate governance (CCG) for Indonesia, Malaysia, Singapore,[15] and Thailand is downloaded, and specific provisions on annual board performance assessments are reviewed and compared. Since Indonesia's latest code of corporate governance is issued in 2006, board evaluation may not be part of the code or may not have been discussed in detail and is therefore excluded in the review.

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[12] Annual report does not pertain to the SEC 17-A report but to the "creative" annual reports that some larger companies published.

[13] There are 10 ASEAN member countries recently. These are Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. Cambodia, Lao PDR, Myanmar, and Vietnam joined only in the late 1990s (ASEAN, n.d.). Timor-Leste is preparing to officially join ASEAN.

[14] Original ASEAN members that joined in 1967 are Indonesia, Malaysia, Philippines, Singapore, and Thailand.

[15] The 2021 Practice Guide is also downloaded and reviewed together with the 2018 Code of Corporate Governance for Singapore.

Certain board demographic variables such as board size, ratio of outside directors, chair-CEO duality, as well as individual director's variable such as age, gender, educational, work background, and tenure are also gathered and tabulated. Data on these variables are primarily obtained from the 2020 SEC 17-A and secondarily from the 2020 "creative" annual report (if available) of the sample companies. While Jansen (2021, p. 1338) find that these "board characteristics constitute excellent control variables," Minichilli et al. (2012) observe that these board characteristics explain some of the board process outcomes.

# 4 Findings

## 4.1 Bank Sample

There are 16 companies classified as banks in the PSE website. Due to trading suspension, NextGenesis Corporation (NXGEN) is excluded from the sample. Table 2 contains the 15 PSE-listed banks included in the sample presented based on market capitalization.

**Table 2. Bank Sample Based on Market Capitalization**[16]

| Symbol | Bank Name | Type of Bank | Market Cap (in millions) | Free Float |
|---|---|---|---|---|
| BDO | BDO Unibank, Inc. | Universal Bank | 554,305.11 | 44.14% |
| BPI | Bank of the Philippine Islands | Universal Bank | 383,164.59 | 48.50% |
| MBT | Metropolitan Bank & Trust Company | Universal Bank | 223,971.21 | 48.16% |
| UBP | Union Bank of the Philippines | Universal Bank | 111,022.98 | 32.48% |
| PTC | Philtrust Bank | Commercial Bank | 99,200.00 | 13.93% |
| SECB | Security Bank Corporation | Universal Bank | 89,369.71 | 59.59% |
| CHIB | China Banking Corporation | Universal Bank | 65,398.30 | 57.12% |
| RCB | Rizal Commercial Banking Corporation | Universal Bank | 40,749.58 | 23.75% |
| PNB | Philippine National Bank | Universal Bank | 31,812.20 | 21.22% |
| PSB | Philippine Savings Bank | Savings Bank | 24,288.30 | 10.57% |
| AUB | Asia United Bank Corporation | Universal Bank | 22,494.14 | 33.51% |
| EW | East West Banking Corporation | Universal Bank | 21,599.76 | 20.08% |
| PBC | Philippine Bank of Communications | Commercial Bank | 8,795.81 | 35.41% |
| PBB | Philippine Business Bank | Thrift Bank | 6,006.19 | 36.72% |
| CSB | Citystate Savings Bank | Thrift Bank | 847.00 | 24.04% |

Source: PSE Edge (n.d.)

The top three biggest banks in terms of market capitalization are all universal banks while the last two smallest banks are both thrift banks. One commercial bank, Philtrust Bank (PTC), and a savings bank, Philippine Savings Bank (PSB), are included in the top 10 largest banks in terms of market capitalization. Two universal banks, Asia United Banking Corporation (AUB) and East West Banking Corporation (EW), lag behind PTC and PSB in size. Interestingly, the three largest banks have free float ranging from 44% to 49%. The two universal banks with free float of around 57% to 60% are China Banking Corporation (CHIB) and Security Bank Corporation (SECB), respectively, while the two universal banks with the lowest free float of around 20% to 21% are EW and Philippine National Bank (PNB). Free float[17] is relevant in that wider ownership by the public may require that Recommendations 6.1 and 6.2 be complied with. Currently, the PSE requires a free float of 15%. This will be increased to 20% by December 2022. Table 3 shows in a snapshot the number of banks per category.

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[16] Market capitalization and free float are based on October 22, 2021, prices and float.

[17] Free or public float represents the shares of the company that are not restricted and, hence, can be publicly traded.

**Table 3. Bank Sample and Their Classification**

| N | Universal Banks | Commercial Banks | Savings Banks | Thrift Banks |
|---|---|---|---|---|
| 15 | 10 | 2 | 1 | 2 |

Source: PSE Edge (n.d.)

All 10 universal banks maintain at least 20% free float, with EW reporting the lowest at 20%. Only one savings bank, PSB, and one thrift bank, PTC, do not meet the minimum 15% free float requirement imposed by the PSE.

## 4.2 Holding Companies Sample

Out of the 42 holding companies listed in the PSE, five[18] of them are suspended from trading and, therefore, excluded in the sample. Table 4 presents the 37 holding companies included in the sample based on market capitalization. In terms of market capitalization, the largest holding company, SM Investments Corporation (SM), is more than double the size of the second and third biggest holding companies, Ayala Corporation (AC) and JG Summit Holdings, Inc. (JGS), respectively. Five out of the top 10 holding companies have at least a listed bank as subsidiary or affiliate. While all top 10 holding companies meet the minimum 15% public float mandated by the PSE, there are four holding companies that are not compliant, namely, Filinvest Development Corporation (FDC), Top Frontier Investments Holdings, Inc. (TFHI), MJC Investments Corporation (MJIC), and BHI Holdings, Inc. (BH).

**Table 4. Holding Companies Sample Based on Market Capitalization**

| Symbol | Name of Company | Bank | Market Cap (in millions) | Free Float |
|---|---|---|---|---|
| SM | SM Investments Corporation | BDO & CHIB | 1,250,357.01 | 48.22% |
| AC | Ayala Corporation | BPI | 540,994.30 | 51.22% |
| JGS | JG Summit Holdings, Inc. | | 495,256.77 | 39.89% |
| AEV | Aboitiz Equity Ventures, Inc. | UBP | 293,897.77 | 47.31% |
| SMC | San Miguel Corporation | | 278,287.42 | 15.81% |
| MPI | Metro Pacific Investments Corporation | | 125,693.64 | 40.60% |
| GTCap | GT Capital Holdings, Inc. | MBT & PSB | 123,358.07 | 43.80% |
| DMC | DMCI Holdings, Inc. | | 113,787.92 | 27.10% |
| LTG | LT Group, Inc. | PNB | 112,975.30 | 25.63% |
| AGI | Alliance Global Group, Inc. | | 105,931.34 | 32.17% |
| FDC | Filinvest Development Corporation | EW | 69,187.70 | 10.74% |
| TFHI | Top Frontier Investments Holdings, Inc. | | 42,942.32 | 11.94% |
| COSCO | Cosco Capital Inc. | | 36,671.15 | 22.92% |
| ALLHC | Ayalaland Logistics Holdings Corporation | | 33,839.55 | 27.16% |
| ANS | A. Soriano Corporation | | 18,125.00 | 16.38% |
| LPZ | Lopez Holdings Corporation | | 15,035.01 | 29.30% |
| MJIC | MJC Investments Corporation | | 3,809.29 | 13.45% |
| ABA | AbaCore Capital Holdings, Inc. | | 3,631.96 | 53.61% |
| HI | House of Investments, Inc. | RCB | 2,826.33 | 23.70% |
| APO | Anglo Philippine Holdings Corporation | | 2,763.04 | 16.85% |
| SGI | Solid Group, Inc. | | 2,167.63 | 25.41% |
| ATN | ATN Holdings, Inc. | | 1,961.00 | 38.19% |
| LODE | Lodestar Investment Holdings Corporation | | 1,920.00 | 17.17% |
| REG | Republic Glass Holdings Corporation | | 1,718.81 | 23.33% |
| ABG | Asiabest Group International, Inc. | | 1,584.00 | 33.33% |
| JOH | Jolliville Holdings Corporation | | 1,494.77 | 34.24% |
| PRIM | Prime Media Holdings, Inc. | | 1,078.46 | 17.79% |
| PA | Pacifica Holdings, Inc. | | 1,066.00 | 22.05% |

[18] Suspended holding companies are the following: Asia Amalgated Holding Company (AAA), Boulevand Holdings Inc. (BHI), Metro Global Holdings Corporation (MGH), Synergy Grid and Development Phils, Inc. (SGP), and Unioil Resources and Holdings Company, Inc. (UNI).

| Symbol | Name of Company | Bank | Market Cap (in millions) | Free Float |
|---|---|---|---|---|
| FJP | F&J Prince Holdings Corporation | | 819.31 | 26.55% |
| WIN | Wellex Resources, Incorporated | | 817.98 | 43.19% |
| SOC | SOC Resources, Inc. | | 604.29 | 23.63% |
| FPI | Forum Pacific, Inc. | | 560.88 | 52.45% |
| ZHI | Zeus Holdings, Inc. | | 517.30 | 56.13% |
| MHC | Mabuhay Holdings Corporation | | 504.00 | 35.87% |
| BH | BHI Holdings, Inc. | | 472.49 | 10.01% |
| SPM | Seafront Resources Corporation | | 329.26 | 81.30% |
| KPH | Keppel Philippines Holdings, Inc. | | 215.75 | 17.69% |

Source: PSE Edge (n.d.)

## 4.3 Summary Findings on Recommendations 6.1 and 6.2 for Bank and Holding Company Samples

**Table 5. 2020 IACGR Findings**

| | Philippine Listed Banks | | | Philippine Listed Holding Companies | | |
|---|---|---|---|---|---|---|
| | N | Compliant | Non-Compliant | N | Compliant | Non-Compliant |
| Recommendation 6.1 | | | | | | |
| a. Self-assessment of the board as a whole | 14 | 14 | 0 | 37 | 21 | 16 |
| b. Self-assessment of the Chairperson of his performance | 14 | 14 | 0 | 37 | 21 | 16 |
| c. Self-assessment of individual director of his performance | 14 | 14 | 0 | 37 | 21 | 16 |
| d. Self-assessment of the committee's performance | 14 | 14 | 0 | 37 | 21 | 16 |
| e. Assessments supported by external facilitator | 14 | 7 | 7 | 37 | 7 | 30 |
| Recommendation 6.2 | | | | | | |
| a. There exists a system that provides criteria and process to determine performance of the board, individual directors and committees | 14 | 14 | 0 | 37 | 27 | 10 |
| b. The system allows for a feedback mechanism from the shareholders | 14 | 14 | 0 | 37 | 36 | 4 |

Source: 2020 IACGRs

## 4.4 Findings on Recommendation 6.1 for Bank Sample

Based on data obtained from the 2020 IACGRs, all banks[19] complied with Recommendation 6.1 (1 to 4), which pertains to the annual self-assessment for the board as a whole, chairperson, board committees, and individual directors, with only a majority of the universal banks complying with Recommendation 6.1 (5 – hiring of external facilitator) (SEC, 2016). Some banks have explicitly included the evaluation of the president/CEO, control officers, and board advisors. The detail of compliance for Recommendation 6.1 varies per bank. While some IACGRs provide the necessary link/s to support the self-assessment provisions, a few of the smaller banks, such as savings and thrift banks, do not provide the support and/or link. In addition, larger banks, such as BDO, provide their board self-assessment forms in their website. Table 6 shows the extent of compliance for Recommendation 6.1 for universal banks and the link/s provided. Since only universal banks employed external

[19] The 2020 IACGR of Philippine Business Bank (PBB) cannot be found in its website nor in the PSE Edge portal. Hence, PBB is excluded in the sample for findings on Recommendations 6.1 and 6.2.

facilitators in their 2020 board evaluation, the table only presents the findings for the 10 universal banks. Three out of the 10 universal banks are noncompliant as to the hiring of external facilitator, namely, AUB, EW and UBP.[20] It appears that only BPI hires an international external facilitator.

**Table 6. Findings on Recommendation 6.1 for Universal Banks**

| Symbol | Recommendation 6.1 (1 to 4) | Recommendation 6.1 (5) |
|---|---|---|
| BDO | Though the self-assessment forms links are provided in the IACGR, access is no longer possible as the page could no longer be found. However, there is a 2020 BDO Board Evaluation Form file in its website. As per its 2020 IACGR, it is stated that an approved set of questionnaires is used supplemented by interviews (BDO, 2017) | Isla Lipana & Co. (PwC Philippines) |
| BPI | Three sources of board evaluation information are provided: 2021 MCG (BPI, 2020e, pp. 36-37); 2020 annual report p. 111 | Aon Plc |
| MBT | 2020 MCG (MBT, 2020d, pp. 50-51) | Reyes Tacandong & Co. |
| UBP | 2020 MCG (UBP, 2020d, p. 14) states that the CG Committee is responsible for overseeing periodic performance evaluation of the board | None |
| SECB | 2020 MCG (SECB, 2020, p. 30) states that the CG Committee is responsible for the evaluation of the board and committees while the Nomination and Remuneration Committee is responsible for the evaluation of the individual directors. | Reyes Tacandong & Co. |
| CHIB | 2020 MCG (CHIB, 2020d, p. 71) | Good Governance Advocates and Practitioners of the Philippines (GGAPP) |
| RCB | No link provided | Institute of Corporate Directors (ICD) |
| PNB | 2020 MCG (PNB, 2020d, pp. 48-49) | Institute of Corporate Directors (ICD) |
| AUB | 2017MCG (AUB, 2017, pp. 25-26) states that the CG committee is responsible for board effectiveness and hence, overseeing the periodic performance evaluation of the board. | None |
| EW | 2021 MCG (EW, 2020d, p. 53) and Committee Charters | None |

Source: 2020 IACGRs; MCGs
MCG stands for Manual on Corporate Governance

The annual board evaluation for almost all types of banks is spearheaded by the Corporate Governance (CG) Committee, except for PNB and PTC in which the Chief Compliance Officer (CCO) facilitated and summarized results of the assessment process. The results of the board performance assessments are then reported to the whole board by the CG Committee Chairperson. As per the information gathered from the 2020 IACGRs, it appears that only BDO supplemented self-assessment questionnaires with interviews. However, for banks with external facilitator, it appears that interviews are part of the external facilitator's process in gathering richer data.

## 4.5 Findings on Recommendation 6.2 for Bank Sample

Critically important are the criteria and processes involved in board performance evaluation, and there should be a means by which feedback from shareholders on the board evaluation can reach the company. While many of the universal banks provide more elaborated criteria on what should be evaluated and how the process should be conducted, many of the smaller banks simply refer to the committee charters and broad characteristics such as size, structure, and composition as criteria. Two

[20] Although UBP indicated in their 2020 IACGR that they are compliant to third-party facilitator, there is no indication of the identity of the external facilitator. Moreover, there is no disclosure of the third-party facilitator's assessment on board evaluation in its 2020 annual report and the bank's website.

universal banks, BDO and SECB,[21] provide their assessment forms in their website. The criteria focused by these two banks can be inferred from the provided assessment forms. As to process, majority of the banks have their CG Committee overseeing the board evaluation process in accordance to the explanation portion of Recommendation 6.2. Tabulated results are then presented by this committee to the whole board.

Table 7 contains a summary of the criteria used by BDO and BPI in their evaluation of the board collectively, its board committees, and individual directors. Although the self-assessment forms used by BPI directors are not provided in the bank's website, the criteria for assessing the board performance and president/CEO can be found in BPI (2020e).

**Table 7. Assessment Criteria Used**

| BDO | BPI |
|---|---|
| Board as a whole | |
| 1. Leadership<br>2. Stewardship<br>3. Contributing to achievement of corporate objectives<br>4. Review and approval of strategic and operational plans, objectives, budgets<br>5. Regular monitoring of corporate results against projections<br>6. Identify, monitor and mitigate significant risks<br>7. Ensure consistency between the bank's strategic and operational plans vis-à-vis its risk appetite<br>8. Review management's succession plan<br>9. Effective meetings<br>10. Bank's approach to governance<br>11. Accountability<br>12. Clearly defining roles and monitoring activities of committees<br>13. Review of the bank's ethical conduct<br>14. Corporate social responsibility and sustainability | 1. Strategy and Effectiveness<br>2. Structure and Committees<br>3. Meetings and Procedures<br>4. Board and Management Relations<br>5. Succession Planning and Training<br>6. Performance Evaluation<br>7. Value Creation<br>Note: General and specific leadership standards such as: adequacy of the processes which monitor business performance; board member interaction with management; adequacy of board knowledge; appropriateness of balance and mix of skills; size of board; contribution of individual board members; board's effectiveness in use of time; if board allows sufficient opportunity to adequately assess management performance; board's ability to keep abreast of developments in wider environment which may affect BPI; working relationship between chairman and chief executive officer; segregation of duties between board and management; ability of directors to express views on each other and to management in constructive manner, etc. |
| Board Committees | |
| 1. Committee structure and terms of reference<br>2. Committee composition<br>3. Frequency and length of meetings<br>4. Manner in conducting meetings<br>5. How much and how soon are materials disseminated<br>6. Due diligence and report to the board<br>7. Access to sufficient resources to function effectively | 1. Committee role<br>2. Committee membership<br>3. Procedure and practice<br>4. Committee structure<br>5. Collaboration and style<br>6. Personal<br>Note: General and specific factors under the above criteria include: the use of committee time; adequacy of committee papers and frequency of meetings; ability to access resources; ability to keep informed in relevant area; provision for continued development; working and relationship between committee chairman and members; segregation of duties between committee and management; ability of directors to express views on each other and to management in a constructive manner, etc. |

[21] SECB provides its board evaluation forms in their 2021 MCG (Annex 2 – Performance Evaluation pp. 123-139). For the whole board, SECB has the following criteria: membership, conduct of meetings, board roles and responsibilities, hiring of management and succession planning, understanding group structure and risk profiles, and enhancement of shareholders' value. There is also one item wherein Audit comments on the oversight responsibility of the board. For committees, SECB focuses on three main criteria: membership, procedures, and responsibilities. For individual directors, they are judged according to the following criteria: fit and proper, attendance, competence, preparedness/diligence, participation, judgment, and candor, fairness, and transparency. Additional items are required for independent directors. Refer to: SECB (2020d)

| BDO | BPI |
|---|---|
| Individual Director | |
| 1. Governance role<br>2. Knowledge of the bank and its environment<br>3. Effective behavior and relationship<br>4. Contribution | 1. Leadership, Vision, Mission and Values<br>2. Effective Governance<br>3. Strategic Thinking and Decision Making<br>4. Teamwork<br>5. Fulfillment of the Bank's Governance<br>6. Attendance |

Source: BDO (2017); BPI (2020e)

The 14 criteria enumerated by BDO to assess board performance collectively are quite similar to the seven broad criteria listed by BPI. Notably, fulfillment of board roles and board processes are important criteria to consider. For committee evaluation,[22] both BDO (2017) and BPI (2020d, Criteria) consider the committee organization, meetings, processes and procedures, and overall effectiveness. Again, it is clear that board processes are equally if not more important than structure and composition.

Aside from criteria to assess the performance of the board as a whole, its committees, and individual directors, BDO, BPI, and SECB provide criteria to assess their CEO/president.

**Table 8. Criteria for CEO/President**

| BDO | BPI | SECB |
|---|---|---|
| 1. Qualifications<br>2. Performance (Financials)<br>3. Compliance (Regulatory)<br>4. Integrity (Code of Conduct)<br>5. Strategy<br>6. Corporate Governance | 1. Leadership<br>2. Working with the Board<br>3. Managing Execution<br>4. Communication/External Relations | 1. Financial Perspective<br>2. Risk Management Perspective<br>3. Manpower Perspective<br>4. Customer Perspective<br>5. Society Perspective |

Sources: BDO (2017), BPI (2020e), SECB (2021)

BDO self-assessment form is composed of two main parts: board of directors' evaluation and director and peer evaluation. For the board of directors' evaluation, there are four main segments: strategic plan and its performance (10 questions), the organization of the board of directors (12 questions), board committees (nine questions), and board's oversight of risk (six questions) (BDO, 2017). These four main segments largely coincide with Deloitte's (2014) four parameters of board evaluation. Broadly, the 10 questions on strategic plan and performance focus on whether the board is "providing effective leadership and overall direction to foster long-term success of the bank" while the 12 questions on board of directors' organization determine whether the "board size and composition provide sufficient diversity among its directors that foster critical discussion and promotes balanced decision-making by the board" (BDO, 2020a, pp. 33-34). Board committees are assessed based on their organization, meetings, processes and procedures, and overall effectiveness in relation to their charter. Since banks are exposed to various risks and perform critical functions affecting the economy, there are six questions on risk oversight by the board.

The second part of the BDO self-assessment focuses on the individual director and peer evaluation of the other directors. This section aims to encourage improved performance of directors by identifying areas that need improvement. Directors are to rate himself/herself as well as other directors in terms of their governance role (six questions), knowledge of the bank and the environment (four questions), effective behavior and relationship (two questions), and contribution (two questions). These questions not only address the role and knowledge of the directors but also attempt to tease out board dynamics and contributions of each director.

Based on BDO self-assessment questionnaires and its overall process, it appears to adequately capture the assessment criteria as enumerated in Table 7. However, survey questions with answers confined on a scale of 1 to 4 with 1 being "Strongly Disagree" and 4 being "Strong Agree" or a rating scale of 1 to 3 with 1 being "Needs Improvement" and 3 being "Exceeds Expectations" can have some limitations. This weakness, however, is supplemented by some questions at the end of each segment

[22] Self-assessment of the Audit Committee is a requirement of SEC.

which are to be responded with additional comments and elaboration by the directors. These questions mainly seek for suggestions or comments for improving the way in which the board/committee functions and any additions/amendments on the assessment criteria to be used in assessing board/committee performance. Moreover, at the end of each main part, directors are required to name three priority areas requiring immediate attention for the board to function more effectively and identify what professional development programs can enhance their performance as director. This addresses Provision 22 in the 2018 UK Corporate Governance Code, which states that "the chair should act on the results of the evaluation by recognizing the strengths and addressing any weaknesses of the board" (FRC, 2018, p. 9). Although this satisfies the requirement that evaluation instruments include both quantitative and qualitative measures to more fully capture board and individual director performance (Daily & Dalton, 2003), it falls short of the three-staged evaluation process suggested by Collier (2004) as there was no mention in the 2020 BDO annual report whether observation of board and board committee meetings was conducted.

Since BDO has board advisers, they are also required to answer questions on how the board can improve their performance and what are their [board advisers] contributions to the overall board functioning. It is apparent from the BDO self-assessment forms that identifying area/s for improvement is equally if not more important than the quantitative ratings obtained from the exercise. Asking for focus areas to improve board effectiveness allows BDO to take steps toward this direction. Getting feedback from both board advisers and senior management also allows better understanding of the board dynamics, specifically the relationship between the board and management.

As reported in BDO's (2020a, p. 35), "for 2020, the bank appointed Isla Lipana & Co./PwC Philippines (PwC) as external facilitator for the board effectiveness evaluation. PwC facilitated a peer and self-evaluation process on the board, board committees and individual directors. The results thereof were supplemented by interviews with the individual directors. Feedback from board advisors and nominated members of BDO senior management was also obtained through interviews. The 2019 and 2020 consolidated evaluation results for the board, board committees and individual directors are positive, and show that the board has been effective – with strong and satisfactory demonstration of attributes in the areas of board responsibilities, composition, conduct, interaction and communication, engagement, administration and process, training and oversight of risks. Areas of further focus and development to continuously strengthen board effectiveness were also identified. The board of directors, with its diverse and extensive expertise, experience and perspectives, has a firm understanding of the business and strategy, as well as working relationship with management." Unfortunately, though the recommended actions and areas for further focus and development noted by the external facilitator remain confidential and are not made public, the evaluation process is discussed in detail as recommended by Daily and Dalton (2003). In addition, there is no disclosure of whether the external facilitator engaged by BDO is independent of the bank.[23] Overall, however, BDO's board evaluation process is up to par compared to existing best practices in the country.

While majority of the banks indicate how shareholders can send their feedback,[24] which is mostly via the investor relations officer or department, many of the larger universal banks also indicate other channels wherein feedback from shareholders can reach the bank, such as writing letter directly to the chairperson or management, providing comments during the shareholders' meeting. In addition, results of the board evaluation are usually published in the annual report, which is usually accessible from the company's website. Some of the board evaluation results[25] are also reported in detail in the 2020 "creative" annual report of many universal banks, such as BDO, BPI, CHIB, MBT, and RCB. Committee achievements[26] are also reported in the 2020 annual report of BDO, BPI, RCB, and SECB.

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[23] BDO 2020 external auditor and external facilitator is P&A Grant Thornton and Isla Lipana & Co./PwC Philippines, respectively. Hence, it appears that there is no conflict of interest in this instance.

[24] All universal banks indicate at least one form of feedback mechanism available to shareholders, which usually involve the investor relations officer or department.

[25] Board evaluation results refer to the brief or extensive discussion of how the board, its committees, and its members have performed. While all universal banks report their board evaluation criteria and process broadly in their 2020 annual reports, not all provide specific details.

[26] Although all universal banks report board committees' composition, structure, functions, and meeting attendance, not all provide specific accomplishments per committee for the year.

Table 9 provides a snapshot of the findings gathered from the review of the 2020 "creative" annual reports of universal banks, except for AUB.[27] Since board performance is related to directors' remuneration, this information is included in the table. Although some universal banks provide information on directors' remuneration in their annual report, this requirement is usually found in the SEC 17-A report. Hence, this remuneration data is primarily extracted from the 2020 SEC 17-A report.

**Table 9. Snapshot of Findings from 2020 "Creative" Annual Reports of Universal Banks**

| Symbol | CG Report/Section Reference | Board Diversity | Board Evaluation Criteria and Process | Discussion of Board Evaluation Results | Discussion of Committee Accomplishments | Director's Remuneration (SEC 17-A) |
|---|---|---|---|---|---|---|
| BDO | pp. 32-66 | pp. 33-34 | pp. 35-36 | Yes | Yes | Individual |
| BPI | pp. 91-147 | pp. 95-98 | pp. 111-112 | Yes | Yes | Aggregate |
| MBT | pp. 36-67 | X | p. 45 | Yes | No | Aggregate |
| UBP | pp. 102-134 | p. 111 | p. 122 | No | No | Aggregate |
| SECB | pp. 94-122 | pp. 95-97 | p. 96 | No | Yes | Aggregate |
| CHIB | pp. 46-59 | pp. 50-51 | pp. 52-53 | Yes | No | Individual |
| RCB | pp. 150-179 | p. 150 | p. 153 | Yes | Yes | Aggregate |
| PNB | pp. 58-81 | pp. 61-62 | p. 63 | No | No | Aggregate |
| EW | pp. 72-81 | p. 73 | p. 73 | No | No | Individual |

Source: 2020 annual reports and 2020 SEC 17-A reports

Aside from the Corporate Governance (CG) section in the "creative" annual report, many of the universal banks also provide a discussion of their CG practices in their SEC 17-A Report. While five universal banks provide CG discussion in their SEC 17-A report, the other five do not, namely, AUB, MBT, PNB, RCB, and UBP. Interestingly, despite SEC (2016, Recommendation 8.4), which states that "company should disclose the remuneration (of directors and executives) on an individual basis," only three universal banks, BDO, CHIB and EW, provide individual remuneration of directors.

## 4.6 Findings on Recommendation 6.1 for Holding Companies Sample

Unlike the full compliance of Recommendation 6.1 (1 to 4) in the bank sample, only 21 out of the 37 holding companies complied with the annual self-assessment requirements. Many of the noncompliant holding companies cite minimal operations and the pandemic as reasons for not conducting the annual self-assessments. Out of the 21 holding companies that performed the annual self-assessment, only seven holding companies hired external facilitator. As expected, these seven holding companies belong to the top 15 holdings companies in terms of market capitalization. Three holding companies, namely, JGS, LPZ, and KPH, indicated in their 2020 IACGR their compliance with the hiring of external facilitator but do not identify their external facilitator.

Similar to the bank sample, the extent of support or linkages indicated in the 2020 IACGRs varies widely among holding companies. Table 10 presents the state of compliance with Recommendation 6.1 by the 21 holding companies in the sample.

**Table 10. Findings on Recommendation 6.1 for Holding Companies Sample**

| Symbol | Recommendation 6.1 (1 to 4) | Recommendation 6.1 (5) |
|---|---|---|
| SM | 2020 MCG (SM 2020d, Art. 1.8.A.2); 2020 integrated annual report (SM, 2020a, p. 120; and company website link to board evaluation forms: SMIC-Board-Evaluation-Form.pdf (sminvestments.com)<br>Board evaluations are spearheaded by the CG | Good Governance Advocates and Practitioners of the Philippines (GGAPP) |

[27] AUB's 2020 creative annual report is not available in their website. Although the annual reports of the other types of banks are available, they do not contain detailed corporate governance report on board evaluation criteria and process. Hence, only findings on the universal banks are shown.

| Symbol | Recommendation 6.1 (1 to 4) | Recommendation 6.1 (5) |
|---|---|---|
| AC | Link to the company website is provided: Board Matters \| Ayala Corporation (This link also provides the process and criteria involved in board evaluation.)<br>Results of the board evaluation as well as the certification of the external facilitator are reported in the 2020 integrated annual report (AC, 2020a, pp. 46 and 83).<br>Compliance Officer/Corporate Secretary summarizes and reports the results to the board. For committee evaluations, results are compiled by the Corporate Secretary and the chairperson of each committee discusses the results with the committee, focusing on areas for improvement. | Aon plc<br>Note: Aon plc's evaluation was conducted through an evaluation questionnaire answered by each director. The evaluation criteria include: (1) Board Composition, (2) Board Roles, Functions and Processes, (3) Information Management, (4) Representation of Shareholders and ESG Factors, (5) Managing Company's Performance, (6) Senior Executive's Talent Management and Succession Planning, (7) Dynamics and relationships, and (8) Corporate Governance Practices related to the Strategy, Policy, Risk, Oversight, and Accountability functions giving insights on the effectiveness of the Board, the Committee, the Chairperson, and the Directors. |
| JGS | Link to the company website is provided: JG Summit Holdings, Inc. (This link also leads to the different assessment forms used for board evaluation.)<br>Board evaluations are spearheaded by the Corporate Governance Committee. Results of the board and committee assessments are presented to the CG Committee and circulated to the board for their feedback and confirmation. | None* |
| AEV | 2020 MCG (AEV, 2020d, pp. 23-24); 2020 Consolidated Annual and Sustainability Report p. 175; link to company's website is provided: 2020-AEV-Annual-Board-Assessment-Form_final.pdf<br>Corporate Secretary complies, analyzes, and presents results of the board evaluations CG Committee. Shareholder Relations Officer receives and compiles feedback and comments from shareholders. Corporate Secretary is to report comments and feedback to CG Committee. | Good Governance Advocates and Practitioners of the Philippines (GGAPP) |
| SMC | 2017 MCG (SMC, 2020d, p. 16)<br>Board evaluations are spearheaded by the CG Committee.<br>Since the chairperson is vacant, no assessment of the chairperson is done. Only assessment of the Audit Committee is done. | None |
| MPI | 2021 MCG (MPI, 2021, Article 6 p. 17)<br>Link to company website is provided: Governance Practices - Metro Pacific Investments Corporation (mpic.com.ph)<br>The Governance & Sustainability Committee spearheads the conduct of the annual board evaluations. | Good Governance Advocates and Practitioners of the Philippines (GGAPP) |
| GTCap | 2019 MCG (GTCap, 2019, p. 16); 2020 annual report p. 72<br>The CG Committee spearheads the annual board evaluation process. | Institute of Corporate Directors (ICD) |
| DMC | 2018 MCG (DMC, 2018, pp. 17 & 25); 2020 CG Report pp. 59-62; link to company website is provided: https://www.dmciholdings.com/corporate_governance/page/board-governance | Castillo Laman Tan Pantaleon & San Jose Law Office |

| Symbol | Recommendation 6.1 (1 to 4) | Recommendation 6.1 (5) |
|---|---|---|
| | Chief Compliance Officer initiates assessment process. An external law office is engaged to tabulate, compile and present results of assessments to the board. | |
| LTG | Self-assessments only started in 2020. | None |
| AGI | 2017 MCG (AGI, 2017, p. 8) | None |
| TFHI | Compliance Officer tabulates results of the board evaluations. Results are then reported by the CG Committee to the board. Validated 2020 results are provided in the company website. | None |
| ALLHC | 2020 MCG (ALLHC, 2020d, p. 15); 2020 annual report p. 29 | Aon Hewitt Singapore |
| LPZ | 2019 MCG (LPZ, 2019, p. 12); link to company website is provided: General Information (lopez-holdings.ph)<br>This link provides the various board evaluation forms.<br>The Head of Internal Audit, Compliance Officer and Chief Risk Officer is to be assessed by the Audit, CG and Risk Oversight Committee, respectively. | None* |
| HI | 2021 MCG (HI, 2021, pp. 36-37)<br>Board evaluations results are compiled by the Compliance Officer. | None |
| APO | 2017 MCG (APO, 2017, pp. 12 & 16) | None |
| SGI | 2017 MCG (SGI, 2017, p. 27); link to company website is provided: https://www.solidgroup.com.ph/sites/default/files/downloadables/SGI%20Amended%20Manual%20on%20Corporate%20Governance%20as%20of%20June%209%2C%202017.pdf | None |
| ATN | 2017 MCG (ATN, 2017, pp. 16 & 18)<br>CG Committee oversees the board evaluation process. | None |
| REG | 2017 MCG (REG, 2017, p. 21) | None |
| FJP | No link provided. | None |
| BH | 2017 MCG (BH, 2017, p. 26) | None |
| KPH | 2017 MCG (KPH, 2017, p. 26) | None* |

Source: 2020 IACGRs, 2020 MCGs
None* refer to companies that indicated compliance with the hiring of external facilitator but identity of the consultant is not provided.

While the CG Committee oversees the annual board evaluations in majority of the holding companies, many smaller holding companies have not explicitly discussed their board evaluation process. Although many of the holding companies have updated their MCG in 2017 to reflect the requirements of the SEC (2016), specifically Recommendation 6.1, only very general provisions are provided. Some of the smaller holding companies do not even have the criteria and process of their board evaluation specified in their MCG. However, many of the larger holding companies[28] share their assessment questionnaires in their respective company website. These include SM, JGS, AEV, and LPZ. Although TFHI's assessment forms are not shared in the company website, the results of its 2020 and 2019 board evaluations can be accessed in its company website. Criteria for the various board evaluations can be inferred from the assessment forms.

[28] MPI indicated in their company website that there are four assessment instruments that the board and its members must accomplish yearly. However, these instruments are not available for viewing.

## 4.7 Findings on Recommendation 6.2 for Holding Companies Sample

While majority of the universal banks provide specific criteria and process for its board evaluations, Table 11 presents the extent in which criteria and process for board evaluations are specified and whether a feedback mechanism on board evaluation is provided to shareholders.

**Table 11. Findings on Recommendation 6.2 for Holding Companies**

| Symbol | Criteria and Process | Feedback Mechanism |
|---|---|---|
| SM | Specified in the assessment forms | Yes |
| AC | Specified in the company website (https://ayala.com/governance/board-matters#annual_performance_assessment) | Yes |
| JGS | Specified in the assessment forms | Yes |
| AEV | Specified in the assessment forms | Yes |
| SMC | Specified in its 2020 IACGR Annex B pp. 150-151 | Yes |
| MPI | Specific criteria provided in MPI (n.d.) | Yes |
| GTCap | Specified in its 2020 annual report pp. 72-73 | Yes |
| DMC | Specified in DMC (n.d.) | No (still in the process of developing a feedback mechanism) |
| LTG | Specified in its 2020 MCG p. 8 (individual director's criteria: attendance, participation and voting on material issues) | Yes |
| AGI | General provisions only in its 2017 MCG | Yes |
| TFHI | Inferred from its 2020, 2019 and 2018 assessment results | Yes |
| ALLHC | Specified in its 2020 annual report p. 29 | Yes |
| LPZ | Specified in the assessment forms | Yes |
| HI | General provisions only as embedded in the CG, Nomination and RPT Committee Charter | Yes |
| APO | General provisions only | Yes |
| SGI | General provisions only as indicated in the CG Committee Charter | Yes |
| ATN | General provisions only in its 2017 MCG | No* |
| REG | Specified in its 2018 Governance, Nomination and Compensation Committee Charter p. 2 | Yes |
| FJP | General provisions only in its 2020 MCG pp. 22-23 | Yes |
| BH | No link provided | No* |
| KPH | General provisions only in its 2017 MCG | Yes |

Source: 2020 IACGRs, MCGs
No* refers to companies that indicate compliance with a feedback mechanism but no details even on the investor relations officer are provided in the company website.

Although 12 out of the 21 holding companies provide specific criteria and process related to their annual board evaluation, many do not provide details. A few of the holding companies do not yet have a feedback mechanism for their shareholders on board evaluation. While many of the universal banks report board evaluation results in their "creative" annual report, only the first 12[29] holding companies listed in Tables 10 and 11 published such a report. Table 12 provides a snapshot of the findings on board evaluation by the top 10 holding companies.[30]

**Table 12. Snapshot of Findings from 2020 "Creative" Annual Reports of Holding Companies**

| Symbol | CG Report/Section Reference | Board Diversity | Board Evaluation Criteria and Process | Discussion of Board Evaluation Results | Discussion of Committee Accomplishments | Director's Remuneration (SEC 17A) |
|---|---|---|---|---|---|---|
| SM | pp. 115-124 | Company website | p. 120 | SEC 17-A pp. 47-48 | No | Individual |
| AC | pp. 216-236 | p. 43 | pp. 44-46 | No | Yes | Individual |

[29] Although TFHI is the 11th company in the list, it does not publish "creative" annual report. ALLHC, which is the 12th company, publishes such a report.
[30] Holding companies after ALLHC do not publish creative annual reports.

| Symbol | CG Report/Section Reference | Board Diversity | Board Evaluation Criteria and Process | Discussion of Board Evaluation Results | Discussion of Committee Accomplishments | Director's Remuneration (SEC 17A) |
|---|---|---|---|---|---|---|
| JGS | pp. 86-95 | p. 90 | Criteria – assessment forms | No | No | Aggregate |
| AEV | pp. 166-195 | p. 170 | pp. 175-176 | No | Yes | Individual |
| SMC | pp. 41-49 | p. 44 | p. 45 | No | No | Aggregate |
| MPI* | pp. 35-39 | p. 42 | Company website | No | No | Aggregate |
| GTCAP | pp. 66-88 | p. 71 | pp. 72-73 | No | No | Aggregate |
| DMC** | Company website | Company website | Company website | No | No | Aggregate |
| LTG | pp. 29-35 | X | X | No | Yes | Aggregate |
| AGI | pp. 54-63 | X | X | No | No | X |

Source: 2020 Annual Reports
*MPI (2020b)
**DMC (2020b)

Many of the top 10 holding companies only report the board meeting attendance with a few disclosing very limited information on the criteria and process of their board evaluation. Aside from AEV and LTG, two Ayala-owned holding companies, AC and ALLHC, provide work accomplished by each board committee. Although criteria and process of their board evaluation for MPI and DMC are not reported in the CG section of their annual report, these can be found in its company website. Despite limited information on the board evaluation, many of these holding companies provide board diversity matrix in their annual reports. The focus on board diversity is observed from both the bank[31] and holding company samples as shown in Tables 9 and 12. This can be attributed to Recommendation 1.4 (SEC, 2016), "the board should have a policy on board diversity."

While 50% of the universal banks provide a discussion of their CG practices in their SEC 17-A report, only three out of the top 10 holding companies have such in their SEC 17-A report, namely, AEV, MPI, and SM. Although AC and DMC do not have a CG discussion in their SEC 17-A report, they, however, provide a link where access to CG information can be viewed.

At this point, it is critical to question whether high compliance by the bank and holding company samples to Recommendations 6.1 and 6.2 leads to better performing boards. The IACGR is a long questionnaire, with around more than 40 pages in its template format alone, and answerable by Yes or No. Moreover, the SEC has adopted a "comply or explain approach"; hence, it may be a stretch to equate high compliance with Recommendations 6.1 and 6.2 with improvement in board effectiveness. Board effectiveness is a very multifaceted term that is not only difficult to observe but difficult to measure as well. Many of the more informative studies on board effectiveness are examined by interviewing directors and observing the boards in action. Various reasons can be behind the high compliance with these recommendations. Beyond the fines or penalties imposed by regulatory agencies, public companies need to build its governance reputation by complying to best practices. Furthermore, the desire of SEC to integrate the Philippines into the ASEAN capital market may also be a reason for high compliance. Banks regulated by the BSP also have to comply to renew their licenses.

Effective board evaluation, first and foremost, emanates from clear purpose and objectives as well as confidentiality throughout the process. Board evaluation should not be used as a "censure" tool but as a "development" tool for continuous improvement and learning for the board and its members. Having clear purpose and objectives not only encourages board members to be committed to the

[31] In an unpublished study conducted by the author in 2020 on risk oversight, it was noted that Hong Kong banks, in their 2019 annual reports, have gone beyond board diversity to promote board culture. As early as 2017, Hong Kong Monetary Authority (HKMA, 2017) has pushed for bank culture reform. The aim is to promote and foster a sound culture, particularly in the three pillars: governance, incentive system, and assessment and feedback mechanisms (HKMA, 2017). In late 2018, supervision of bank culture is part of the regulatory agency's function (HKMA, 2018). In early 2019, HKMA requires 30 banks to conduct self-assessment of their culture enhancement efforts vis-à-vis major developments in the international scene on this area (HKMA, 2020).

exercise but also elicits trust so that candid sharing of valuable information can transpire. Although almost all the Philippine banks and holding companies employ self-assessment questionnaire, questionnaires answerable by a rating scale can provide limited information on how to improve board effectiveness. Interviews are seen to provide richer and more relevant information to understand the workings of the board and on how to improve its performance and, therefore, should be employed by companies in tandem with questionnaires (Goltser & Sharma, 2020). According to the 2012 Spencer Stuart article (Au et al, 2012, p. 4), "in the most effect board evaluations, directors are interviewed individually on a confidential basis and asked for both their qualitative and quantitative assessment of the key areas that determine the effectiveness of the board. The assessment interviews should be conducted by a seasoned boardroom consultant who understands boardroom issues and CEO/board relations. Interviews typically are wide-ranging discussions,[32] examining everything from board composition and organization, board processes, roles and responsibilities to communication, boardroom dynamics, the board/management relationship and the quality of boardroom discussion." Moreover, similar to the 2012 Spencer Stuart article (Au, et al., 2012), Goltser and Sharma (2020, para. 14) "recommend varying the board evaluation format periodically to permit fresh perspectives, allowing for actionable areas for improvement."

While it is highly suggested that a board leader—whether the chairperson or the lead independent director—should be the driving force behind the board evaluation process, the one conducting the assessment interviews should be a seasoned third-party facilitator[33] who knows about boardroom issues and dynamics and governance guidelines and regulations. Not only objective and candid responses from interviewees can be obtained but proper benchmarking to its peers and to the evolving standards of corporate governance and best practices can be conducted as well (Goltser & Sharma, 2020; Au et al., 2012). Holistically, board evaluation process should go beyond the board directors themselves and should include the views of "senior management and best practices from outside the company" (Au et al., 2012, p. 3).

Lastly, not only should results of the board evaluation be presented to and discussed by the board, but an action plan should be in place as well, prioritizing items that should be addressed in the coming year with timeline and milestones. The "lack of follow-up can generate cynicism about the process and the board leadership's commitment to improving effectiveness in the future" according to the 2012 Spencer Stuart article (Au, et al., 2012, p. 5). Although the governance committee is usually delegated to do the follow-up of these issues, the action plan stems from board recommendations. As part of the following year's assessment, the board reviews the progress of its recommended action plan. Goltser and Sharma (2020, para. 25) warn that disclosure should provide "investors with meaningful information about the quality of the board's self-assessment." Key disclosure topics include the board's objectives guiding the evaluation process, the process involved (selected methodology and scope, evaluation topics, and board leaders involved), the results, and the changes implemented, though Daily and Dalton (2003) only recommend that the evaluation process, and not the results, be shared to the public.

## 4.8 Board Diversity Dimension Focused by Universal Banks

Table 13 shows the board characteristics focused by universal banks.[34] Age, gender, ethnicity, experience/skills, and type of director are the "usual suspects" that holding companies are focusing on as well. BPI and SECB also focus on environmental, social, and governance (ESG) involvement and political/reputational capital of their directors, respectively.

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[32] The 2012 Spencer Stuart article (Au et al, 2012, p. 4) recommends that "a full board evaluation include a review of governance documents, committee charters, board meeting minutes, board meeting agendas and observation of a board meeting. Observing the board dynamics and exchanges between directors during live meetings can be a very useful input when providing advice and recommendations for improvement, particularly related to the quality of board discussions."

[33] According to Goltser and Sharma (2020), one-on-one interviews facilitated by lead director may also inhibit candid comments about sensitive issues.

[34] Board diversity variables focused by holding companies are like those of the universal banks. Hence, they are not presented.

**Table 13. Board Diversity Variables Focused by Universal Banks**

| | BDO | BPI | UBP | SECB | CHIB | RCB | PNB |
|---|---|---|---|---|---|---|---|
| Age | √ | √ | √ | √ | √ | | √ |
| Gender | √ | √ | √ | √ | √ | √ | √ |
| Ethnicity/Race | √ | √ | √ | √ | √ | | |
| Experience/Skills | √ | √ | √ | √ | √ | | √ |
| Type of Director | √ | √ | √ | √ | √ | √ | √ |
| ESG Involvement | | √ | | | | | |
| Political/Reputational Capital | | | | √ | | | |

Source: 2020 annual report
Note: MBT and EW do not provide specific board diversity aspects, hence, are not included in the table.

Subsequent tables below revolve around these board dimensions: average size of the board, ratio of outside directors, age, gender, educational background, working background, ethnicity, separation of chairperson/CEO, and tenure. Jansen (2021) finds these board demographics relevant and uses them as control variables.

**Table 14. Board Size and Composition**

| | Philippine Listed Banks | | | Philippine Listed Holding Companies | | |
|---|---|---|---|---|---|---|
| | N | Mean | Range | N | Mean | Range |
| EDs | 15 | 1.33 | 1 to 3 | 37 | 2.89 | 1 to 6 |
| NEDs | 15 | 6.40 | 3 to 9 | 37 | 4.00 | 0 to 10 |
| IDs | 15 | 4.47 | 3 to 6 | 37 | 2.65 | 2 to 4 |
| Total | 15 | 12.20 | 9 to 15 | 37 | 9.54 | 7 to 15 |
| ID/Total | 15 | 36.61% | 25.00% to 54.55% | 37 | 27.76% | 15.38% to 42.86% |

Source: 2020 SEC 17-A reports

In terms of board size, the bank sample has bigger boards compared to the holding companies. This can be attributed to the more complex and risky operations of banks which require more board committees to be established. While holding companies may have many various types of business operations under its umbrella, each of the business units has its own set of board to supervise its respective operations. The bank sample also complied with the minimum number of three independent directors, although Recommendation 5.1 (SEC, 2016, p. 23) requires "at least three independent directors or such number as to constitute at least one-third of the members of the board, whichever is higher." On the average, the bank sample meet the one-third requirement. However, full compliance is observed if only the universal banks are considered.[35] This is unfortunately not the case with the holding companies. High compliance of Recommendation 5.1 in the bank sample can be attributed to the strict monitoring of the Bangko Sentral ng Pilipinas (BSP), the regulatory agency in charge of financial institutions in the country.[36]

Extant literature on board independence finds that it contributes to the better monitoring role of the board (Abatecola et al., 2014). However, Van den Berghe and Baelden (2005, Abstract) warn that independence should be defined beyond "being in a position free of any possible conflicts of interest." For directors to have the "right attitude," they (2005, Abstract) claim that "three conditions have to be jointly fulfilled: each director should have the ability as well as the willingness to be a critical thinker, with an independent mind, however, the environment should also be such as to facilitate directors to display this attitude." In fact, Jonsson and Powell (2006, p. 14) argue that "independence issue shouldn't be about stripping directors of any ties to anything to do with the company but rather about the directors understanding the role they have and taking it seriously, where, as in an effective team, everyone has a role, commitment and responsibility. The commitment of teams to solve problems should be a guiding light for boards to fulfill their roles … the advantages of the team are an illusion without more time for directors to do work together and learn from each other."

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[35] BPI in its 2020 annual report (p. 98) aims to increase the number of independent directors (IDs) to at least five as part of its measurable diversity objectives or targets. As of 2020, BPI has five IDs.

[36] BSP also issued its own version of corporate governance code for banks in 2017, BSP Circular No. 969 Enhanced corporate governance guidelines for BSP-supervised financial institutions, which is considered stricter than the code issued by the SEC (BSP, 2017)

**Table 15. Chairperson Profile**

| | Philippine Listed Banks | | | Philippine Listed Holding Companies | | |
|---|---|---|---|---|---|---|
| | N | Mean/% | Range | N* | Mean | Range |
| Age | 15 | 66.07 | 52 to 81 | 33 | 67.76 | 43 to 86 |
| Male | 15 | 80.00% (12) | n.a. | 35 | 94.29% (33) | n.a. |
| Female | 15 | 20.00% (3) | n.a. | 35 | 5.71% (2) | n.a. |
| Foreign Nationality[37] | 15 | 0% (0) | n.a. | 35 | 5.71% (2) | n.a. |
| Undergraduate Degree | 15 | Business related courses 80% (12) | | 19 | Business related courses 73.68% (14) | |
| Undergraduate Degree Taken Abroad | 15 | 26.67% (4) | n.a. | 19 | 47.37% (9) | n.a. |
| Master's Degree | 15 | 60.00% (9) | n.a. | 22 | 59.09% (13) | n.a. |
| Master's Degree Taken Abroad | 15 | 33.33% (5) | n.a. | 22 | 45.45% (10) | n.a. |
| Banking/Finance Background | 15 | 46.67% (7) | n.a. | 34 | 5.88% (2) | n.a. |
| Previous CEO/President before becoming Chairperson | 15 | 33.33% (3) | n.a. | 32 | 18.75% (6)<br>25.00% (8)<br>43.75% (14) | n.a. |
| Formerly Worked in Government Office/s | 15 | 33.33% (3) | n.a. | 35 | 5.71% (2) | n.a. |

Source: 2020 SEC 17-A reports
*Two holding companies, PRIM and SMC, do not have a chairperson.

Table 15 provides some interesting facts about the profile of the chairpersons in the two samples. While the average age of the chairpersons in both the bank and holding company samples is 66 to 67 years old, the youngest bank chairperson is older at 52 years old compared to 43 years old in the holding companies. The chairpersons of holding companies are predominantly male.[38] Although majority of the chairpersons in both samples graduated from a business-related course, more chairpersons in the holding companies took their undergraduate degree abroad compared to the banks. Similarly, while 60% of the chairpersons in both samples have a master's degree, more chairpersons in the holding companies took their master's degree abroad. As expected, more bank chairpersons have banking and finance working background. There is also a higher proportion of bank chairpersons who were CEOs/presidents of the bank before becoming the chairperson. In addition, more bank chairpersons previously worked in government offices. Although Table 15 shows that there is a higher proportion of holding companies' chairpersons who were CEOs/presidents, the 18.75% or six chairpersons hold concurrent roles of chairperson and CEO.

**Table 16. CEO/President Profile**

| | Philippine Listed Banks | | | Philippine Listed Holding Companies | | |
|---|---|---|---|---|---|---|
| | N | Mean/% | Range | N | Mean | Range |
| Age | 15 | 61.20 | 54 to 82 | 33 | 61.18 | 41 to 79 |
| Male | 15 | 93.33% (14) | n.a. | 37 | 81.08% (30) | n.a. |
| Female | 15 | 6.67% (1) | n.a. | 37 | 18.92% (7) | n.a. |
| Foreign Nationality | 15 | 6.67% (1) | n.a. | 35 | 5.71% (2) | n.a. |
| Undergraduate Degree | 13 | Business related courses 69.23% (9) | | 30 | Business related courses 60.00% (18) | |
| | | Law 0% (0) | | 30 | Law 6.67% (2) | |
| | | Engineering courses 23.08% (3) | | | Engineering courses 13.33% (4) | |
| Undergraduate Degree Taken Abroad | 13 | 7.69% (1) | n.a. | 30 | 33.33% (10) | n.a. |
| Master's Degree | 15 | 46.67% (7) | n.a. | 31 | 38.71% (12) | n.a. |

37 Nationality is determined from the SEC 17-A report and indicated as Japanese, American, etc.
38 Examining directors' data in UK and Romania, Jansen (2021) finds that 7% of the board chair positions are held by women, higher compared to the European average of 4% as reported by the European Women on Boards (2016).

| | Philippine Listed Banks | | | Philippine Listed Holding Companies | | |
|---|---|---|---|---|---|---|
| | N | Mean/% | Range | N | Mean | Range |
| Master's Degree Taken Abroad | 15 | 26.67% (4) | n.a. | 31 | 16.13% (5) | n.a. |
| Banking/Finance Background | 15 | 86.67% (13) | n.a. | 37 | 27.03% (10) | n.a. |
| Chairperson/CEO Duality | 15 | 0% (0) | n.a. | 35 | 22.86% (8) | n.a. |
| Previous working experience abroad | 15 | 26.67% (4) | n.a. | 37 | 21.62% (8) | n.a. |
| Formerly Worked in Government Office/s | 15 | 6.67% (1) | n.a. | 37 | 5.41% (2) | n.a. |

Source: 2020 SEC 17-A Reports

Compared to Table 15, the average age of CEOs/presidents of banks and holding companies is younger at 61 years old compared to the average age of 66 to 67 years old for chairpersons. Both the youngest and oldest bank CEOs/presidents are older at 54 and 82 years old compared to their counterparts in the holding company sample at 41 and 79 years old. Interestingly, there are relatively more female CEOs/presidents in the holding companies compared to the banks. More female bank chairpersons can be attributed to daughters of two bank owners seated as chairperson in their respective bank.

While many of the CEOs/presidents in both samples graduated from a business-related course, a higher proportion of the holding companies' CEOs/presidents took their undergraduate degree abroad. Not only do relatively more bank CEOs/presidents have a master's degree compared to their counterparts in the holding companies but there is a higher proportion of them who took their master's degree abroad as well. As expected, there is a higher proportion of bank CEOs/presidents with banking or finance background compared to those in the holding companies. While there are a number of chairpersons in holding companies who concurrently act as CEO, no such duality is noted in the banks. Similar to the profile of chairpersons, a relatively higher proportion of bank CEOs/presidents have previous working experience abroad and worked in the government office/s.

**Table 17. Board Members Profile**

| | Philippine Listed Banks | | | Philippine Listed Holding Companies | | |
|---|---|---|---|---|---|---|
| | N | Mean (%) | Range (N) | N | Mean (%) | Range |
| Age | 15 | | | 37 | | |
| 59 and below | | 2.93 (24.04%) | 0 to 7 | | 2.86 (30.02%) | 0 to 8 |
| 60 to 69 | | 4.20 (34.43%) | 1 to 7 | | 3.00 (31.44%) | 0 to 8 |
| 70 to 79 | | 3.53 (28.96%) | 1 to 6 | | 2.22 (23.23%) | 0 to 6 |
| 80 to 89 | | 1.27 (10.38%) | 0 to 3 | | 0.81 (8.49%) | 0 to 4 |
| 90 and above | | 0.27 (2.19%) | 0 to 1 | | 0.16 (1.70%) | 0 to 2 |
| Not Disclosed | | n.a. | n.a. | | 0.49 (5.10%) | 0 to 9 |
| Male | 15 | 10.07 (82.53%) | 7 to 12 | 37 | 7.84 (82.15%) | 4 to 13 |
| Female | 15 | 2.20 (18.03%) | 1 to 4 | 37 | 1.70 (17.85%) | 0 to 5 |
| Foreigner in the Board | 15 | 0.73 (6.01%) | 0 to 4 | 37 | 0.41 (4.25%) | 0 to 5 |
| Undergraduate Degree | 15 | | | 37 | | |
| Business related courses | | 7.47 (61.20%) | 2 to 12 | | 4.03 (42.21%) | 0 to 10 |
| Law | | 1.40 (11.48%) | 0 to 4 | | 1.27 (13.31%) | 0 to 5 |
| Mathematic related courses* | | 1.40 (11.48%) | 0 to 4 | | 0.59 (6.23%) | 0 to 4 |
| Others | | 1.13 (9.29%) | 0 to 4 | | 0.97 (10.20%) | 0 to 4 |
| Not disclosed | | 0.80 (6.56%) | 0 to 4 | | 2.68 (28.05%) | 0 to 11 |
| Undergraduate Degree Taken Locally | | 8.80 (72.13%) | 1 to 12 | | 5.41 (56.98%) | 0 to 12 |
| Undergraduate Degree Taken Abroad | | 2.20 (18.03%) | 0 to 2 | | 1.51 (15.95%) | 0 to 5 |

| | Philippine Listed Banks | | | Philippine Listed Holding Companies | | |
|---|---|---|---|---|---|---|
| | N | Mean (%) | Range (N) | N | Mean (%) | Range |
| Undergraduate Degree Taken Location Not Disclosed | | 1.20 (9.84%) | 0 to 10 | | 2.57 (27.07%) | 0 to 11 |
| Highest Educational Level | 15 | | | 37 | | |
| Undergraduate Degree Taken Locally | | 4.33 (35.52%) | | | 3.11 (32.76%) | 0 to 8 |
| Undergraduate Degree Taken Abroad | | 0.60 (4.92%) | | | 0.86 (9.12%) | 0 to 4 |
| Master's Degree Taken Locally | | 2.40 (19.67%) | 1 to 5 | | 1.35 (14.25%) | 0 to 5 |
| MBA Degree Taken Abroad | | 3.87 (31.69%) | 0 to 9 | | 1.84 (19.37%) | 0 to 8 |
| PhD Taken Locally | | 0.13 (1.09%) | 0 to 1 | | 0.11 (1.14%) | 0 to 1 |
| PhD Taken Abroad | | 0.20 (1.64%) | 0 to 1 | | 0.05 (0.57%) | 0 to 1 |
| Not Disclosed | | 0.67 (5.46%) | 0 to 3 | | 2.16 (22.79%) | 0 to 11 |
| Banking/Finance/Business Background** | 15 | 10.20 (83.61%) | 5 to 14 | | 7.49 (78.92%) | 0 to 13 |
| Previous working experience abroad | 15 | 2.00 (16.39%) | 0 to 5 | | 0.68 (7.12%) | 0 to 4 |
| Formerly Worked in Government Office/s | 15 | 2.07 (16.94%) | 0 to 5 | | 0.97 (10.26%) | 0 to 6 |
| Tenure | 15 | | | 37 | | |
| 5 years and below | | 5.60 (45.90%) | 0 to 11 | | 3.19 (33.43%) | 0 to 9 |
| Greater than 5 yrs up to 10 yrs | | 2.40 (19.67%) | 0 to 9 | | 1.35 (14.16%) | 0 to 5 |
| Greater than 10 yrs up to 15 yrs | | 1.13 (9.29%) | 0 to 4 | | 1.51 (15.86%) | 0 to 7 |
| Greater than 15 yrs up to 20 yrs | | 0.93 (7.65%) | 0 to 4 | | 0.57 (5.95%) | 0 to 3 |
| Greater than 20 years | | 1.60 (13.11%) | 0 to 5 | | 1.78 (18.70%) | 0 to 5 |
| Not Disclosed | | 0.53 (4.37%) | 0 to 7 | | 1.14 (11.90%) | 0 to 12 |

*Mathematical related courses include engineering, computer science, IT-related courses.
**Three universal banks (BPI, SECB and UBP) and four holding companies (JOH, MHC, MJIC and PA) have a director with IT background.
Source: 2020 SEC 17-A reports

In terms of age, a higher proportion of bank board members are in the age brackets between 60 to 79 years old while their counterparts in the holding companies are in the age brackets between 69 years old and/or younger.[39] Nondisclosure of age is only observed in the holding company sample. In terms of age diversity, board members' ages generally range between 79 years old and younger for both samples. To acquire the necessary experience and stature, board members are usually in their 60s or retirement age. While some proponents argue that advanced age results in diminished performance, however, according to Brandes et al. (2021), retired directors, especially RIDs, better fulfill their board roles as their retired status affords them more time to deal with issues faced by the company which they serve. Younger directors are also hired to boards as they bring new knowledge and skills as well as fresh perspectives relevant in dealing with the many current and anticipated issues faced by the company (Underwood, 2020). In fact, Underwood (2020, p. 4) states that "if boards are trained in generational diversity and strategies, they will possess the Holy Grail of human interaction: a generational gearbox, which enables them to shift gears instantly and accurately when dealing with- and frequently attempting to persuade- human beings from one generation to the next."

Similar to the facts observed on the gender of chairpersons and CEOs/presidents, board members of both samples are predominantly male. However, female board members are gaining foothold as publicly listed Philippine companies are encouraged by Recommendation 1.4 to increase the number

[39] Looking at UK and Romanian data on board directors, Jansen (2021) finds that the average board age is 55, in line with the European average of 60 as per findings of Korn Ferry Institute (2018).

of female directors, especially female independent directors (SEC, 2016).[40] Although studies investigating the "relationship between gender diversity and firm performance have produced mixed results", some proponents have argued "that boards with a higher proportion of women may take a different approach toward how board roles should be executed", thereby contributing to better fulfillment of board roles and ultimately on firm performance (Nielsen & Huse, 2010, as cited in Martinez-Jimenez et al., 2020, p. 317, 309). As per Securities Commission Malaysia (2021, 5.9 & 5.10), the board should comprise of at least 30% women directors, and company policy on gender diversity should also be disclosed in the annual report. Although the Monetary Authority of Singapore (2018, Provision 2.4) does not specify the minimum number of women directors, it requires that "board diversity policy and progress, including objectives, are to be disclosed in the company's annual report".[41]

As part of the board diversity initiatives mainly due to the globalization of business operations, many banks and holding companies have foreign nationals serving in their board.[42] In fact, having board members with educational and/or working background abroad is considered a key feature that can enhance the company's competitive advantage. To provide better advisory/support role, board members with previous work experience in government offices are also considered valuable assets. Five universal banks, namely, BDO, PNB, RCB, SECB, and UBP, have foreign nationality directors in their board. While almost all of the universal banks boast of directors with working experience abroad, smaller banks, such as AUB, CSB, PBC, and PTC, do not have directors with such qualification. In addition, three banks, CHIB, CSB, and EW, do not have directors who worked in the government office/s.

To ensure proper succession in the company, many banks and holding companies have board members with shorter to medium term tenure in their midst. While the founders/owners have been with their respective company for more than 10 years,[43] there is an urgent need to groom and mentor new board members who will eventually take the place of the older or longer tenured directors. Table 17 shows that banks and holding companies have been hiring directors with less than 10 years' tenure in their board as part of their board diversity and succession planning initiative.

Although publicly listed Philippine companies are generally required to report the attendance of directors in board and committee meetings, this is not included in the board variables being examined in this study because "it is not the number of board meetings that indicates the success of a board's effort in monitoring, but the ratification and monitoring of corporate proposals in board meetings which help boards to monitor and assess CEOs" (Ji et al., 2020, pp. 1-2).

## 4.9 Comparison of Code of Corporate Governance Among Other ASEAN Countries

To visualize a more complete picture, the CCGs of other selected ASEAN neighbors are reviewed in relation to Recommendations 6.1 and 6.2 on board evaluation contained in the SEC (2016). As mentioned previously in the Sample and Methodology section, the latest Indonesian CCG is issued in 2006 and does not contain details on board evaluation requirements. Hence, comparison of CCG of Malaysia, the Philippines, Singapore, and Thailand is performed, excluding Indonesia. Table 18 contains a snapshot of the CCG of the four ASEAN countries reviewed.

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[40] In BPI's 2020 annual report (BPI, 2020a, p. 98), the bank aims to increase female board members to at least two.
[41] Based on the review of the 2020 annual reports of banks and holding companies, two companies, BPI and DMC, discussed board diversity objectives or targets and progress, respectively.
[42] Jansen (2021) reports that the European average of 39% of directors are nonnationals.
[43] 2018 UK Corporate Governance Code (FRC, 2018, Provision 19) states that the chair should not remain in post beyond nine years from the date of their first appointment in the board.

**Table 18. Codes for Four ASEAN Countries on Board evaluation**

| Malaysia<br>2021 CCG | Philippines<br>2016 CCG (SEC, 2016) | Singapore<br>2018 CCG[44] (MAS, 2018) | Thailand<br>2017 CCG (Thai SEC, 2017) |
|---|---|---|---|
| Intended Outcome 6.0, Practice 6.1 and Guidance G6.1 | Principle 6, Recommendations 6.1 and 6.2 | Principle 5, Provisions 5.1 and 5.2, Practice Guidance 5 | Principle 3, Principle 3.7 |

Although all four ASEAN countries' CCG require annual performance assessment of the whole board, its committees, and individual directors, the difference lies in the details. The Thai SEC (2017) Principle 3.7 has the most broadly worded requirement stating that, "The board should conduct a formal annual performance evaluation of the board, its committees, and each individual director. The evaluation results should be used to strengthen the effectiveness of the board." Engaging independent experts to help facilitate objective and candid board evaluation is not explicitly stated in the Thai SEC (2017). The SEC (2016) specifies in Recommendation 6.1 that, "Every three years, the assessment should be supported by an external facilitator." While Malaysia's 2021 CCG and Singapore's 2018 CCG (MAS, 2018) also have this specific requirement for external facilitator, Singapore does not specify how often the board should engage outside facilitator.

The SEC (2016) specifies in the explanation section for Recommendation 6.2 that "disclosure of the criteria, process and collective results of the assessment" can help shareholders to determine the performance of the board and its members. However, where such disclosure should be reported is not explicitly stated unlike in the CCG of Malaysia and Singapore (MAS, 2018). Singapore requires this disclosure to be presented in the annual report. In addition, its states that "how the assessments of the board, its committees and each director have been conducted, including the identity of any external facilitator and its connection, if any, with the company or any of its directors" (MAS, 2018, Provision 5.2). [45] On the other hand, Malaysia expects the disclosure to be in the CG Report with the following specific items reported (Securities Commission Malaysia, 2021, p. 39):

- How the evaluation was conducted, the criteria used such as the assessment of fit and properness, contribution and performance, and caliber and personality of directors;
- Whether an independent expert was engaged, or if it was internally facilitated;
- Key strengths and/or weaknesses that were identified from the evaluation;
- Steps or enhancements proposed to be undertaken to mitigate or address the weaknesses identified; and
- Impact of the evaluation on board composition (if any).

## 5 Conclusion

Board performance assessment is a powerful governance tool in developing high-performing boards. A properly designed board performance assessment provides a link between and among the determinants of board effectiveness, such as board characteristics and attributes, board processes and dynamics (the factors) with board effectiveness (the consequence), and board/firm performance (the outcome). Hence, board evaluation should not be conducted as mere compliance of corporate requirement but for continuous improvement and learning. Though its benefits are numerous and ultimately contributes to the growth and long-term sustainability of the company, incorrectly executed evaluation can lead to distrust among board members and between the board and management, eroding board cohesiveness (Kiel & Beck, 2006). It is quite reassuring that BDO's board evaluation process has most of the suggested features for an effective board evaluation, such as conducted by an external facilitator, questionnaire supplemented by interviews, governance of risk included in the questionnaire, views of senior management and board advisers captured by the process, areas for improvement to be identified by directors, and results of the assessment reported to the board and in its "creative" annual report.

[44] The accompanying 2021 Practice Guide for the 2018 CCG for Singapore is also downloaded and reviewed.
[45] This has the exact same wordings as the 2018 UK Corporate Governance Code Provision 21.

While majority of the Philippine listed banks and holding companies have been conducting annual board evaluations in 2020, ample room for improvement remains in various areas, such as transparency in criteria and processes, the process of board evaluation, engagement of external facilitator, and disclosure of board evaluation results. For instance, self-assessments are predominantly conducted using questionnaires answerable with a rating scale. However, teasing out richer and more informative details on how to improve board effectiveness may require more elaboration from directors. Hence, self-assessment using questionnaires should be supplemented by interviews. Since interviews done by the chairman of the board or lead independent director may intimidate some directors from being completely honest and candid, interviews facilitated by qualified external facilitators may be the solution. However, only mature companies are ready to engage external facilitator (Kiel & Beck, 2006). This should be a valid consideration to account for. Though there may be no shortage of external facilitators, regulators and companies must be aware that the type and independence of the external facilitator can affect the quality of board evaluation (Sobhan & Adegbite, 2021). Reports of external facilitators are also not disclosed in detail to the public. Hence, determining the quality of work of external facilitators can be quite problematic at this point. More research should be done on the identity, quality of work, and independence of the external facilitator for regulators to determine accreditation criteria.

In terms of disclosure of board evaluation results, this can be a very sensitive issue. Though board evaluation results are usually reported to the board and, to some extent, to the stockholders during the annual stockholders' meeting in some companies, what should be reported remain debatable. Recommended actions and areas of further focus and development to continuously strengthen board effectiveness should be identified. However, making these sensitive and critical information public may be problematic. Although Malaysia "expects" a disclosure of the key strengths and weaknesses noted from the evaluation process as well as steps to enhance the strengths or to mitigate or address the weaknesses, compliance and the manner of compliance remain to be seen.

To voice the warning of Smallman (2007), corporate governance, particularly the working of the boards and what embodies board effectiveness, is quite a complex topic to be generalized using one theoretical framework. Smallman (2007, p. 245) suggests "a return to the 'drawing board' for corporate governance in order that practices reflect the complex world."

One of the main limitations of the study is that board evaluation is still a very new concept in many countries. This is particularly the case in the Philippines with the SEC (2016) becoming effective only on January 1, 2017. Moreover, board evaluation requires time, commitment, resources, and most importantly trust to be an effective governance tool. As such, the adoption of the board evaluation provisions in the SEC (2016) is still in its infancy stage at the writing of the study. Hence, the findings may not provide conclusive results yet. However, these initial findings can provide valuable baseline information to point which direction should future developments and agenda be focused on.

Another major limitation of the study is that board effectiveness can be best investigated by examining the "board black box," which is generally composed of two main components—board attributes and board processes. While board attributes pertain to "the board human capital, board size, and board diversity, broad processes encompass the board culture (critical questioning), board social capital (structural and cognitive), and board cohesiveness" (Jaskyte, 2018, p. 1099). It is quite challenging to gather and capture data on board processes because these are usually "unobservable" and are generally "highly guarded" information that are not readily available to the public. Moreover, board tasks, which are considered separate and independent acting variables on board effectiveness, can also be cumbersome to capture and tabulate given the unique operations and various developments in their respective competitive environment. Collier (2004, p. 12) asks whether the old saying "if you cannot measure something then you cannot manage it" applies to the work of boards. His answer is a "qualified no." Although he claims that "measuring board performance is obviously difficult, but so is evaluating that performance" (Collier, 2004, p. 16), he observes that the three-staged evaluation process[46] conducted by an experienced facilitator can measure board effectiveness with some success.

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[46] The three-staged evaluation process conducted by experienced facilitator involves: individual interviews with each director based on an agreed questionnaire, attendance at two board meetings, and a subsequent report and recommendations to be prepared for and presented to the board (Collier, 2004, p. 16). The questionnaire

Future research can be conducted using other research methods, such as survey and interview. Interviewing directors and third-party facilitators on the board effectiveness and how it can be measured will yield richer information on this relevant corporate governance topic. Furthermore, expanding the sample to include both publicly listed and private Philippine companies can also generate a holistic view of what is board effectiveness and how it can be adequately measured and captured.

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identifies the major issues and changing themes that the organization is facing. Time spent observing the board in action will reveal how the board divides its time between strategy, decision-making, and monitoring of corporate performance as well as determine the atmosphere, style, and dynamics of the board. Lastly, the report will cover observations on the following: board, the information it receives, its style and processes, its size and composition, its dynamics, and its relationship with its committees.

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# Appendix

Current research on board effectiveness does not completely disregard board demographic variables as shown in the table below. In fact, board demographic variables are considered critical input to board effectiveness (Jansen, 2021) and are generally focused on board organization/structure and individual director's qualifications and characteristics, such as age, educational background, values, and experiences.

Appendix A. Evolution of Board Effectiveness Variables

| | **Board Variables** | **Board Processes** |
|---|---|---|
| Zahra & Pearce (1989, p. 305)<br><br>Detailed descriptions of the variables can be found on pp. 306 – 307. | • Composition (board size, mix of directors and minority representation)<br>• Characteristics (directors' background and board personality)<br>• Structure (organization of board committees, flow of information and board leadership) | • Frequency and length of meetings<br>• CEO-board interface<br>• Board consensus<br>• Board evaluation<br>• Formality of board proceedings |
| Forbes & Milliken (1999, p. 498)<br><br>Detailed descriptions of the variables can be found on pp. 493 – 499. | • Board demography (diversity, proportion of outsiders, board size and board tenure)<br>• Presence of knowledge and skills (functional area versus firm-specific knowledge and skills) | • Effort norms<br>• Cognitive conflict<br>• Use of knowledge and skills |
| Jaskyte (2018, p. 1099)<br><br>Detailed descriptions of the variables can be found on pp. 1099 – 1102. | • Board human capital<br>• Board size<br>• Board diversity | • Board culture<br>• Board social capital<br>• Board cohesiveness |
| He, et al. (2020, p.3)<br><br>Detailed descriptions of the variables can be found on pp. 3 – 5. | Board potential<br>• Multi-directorship<br>• Board knowledge diversity<br>• Board tenure | Board dynamics<br>• Board activity<br>• Board size<br>• Board independence<br>• Directors' shareholding<br>• Gender diversity |
| Jansen (2021, p. 1339)<br><br>Detailed description of the variables can be found on pp. 1341 – 1343. | • Board size<br>• NED ratio<br>• CEO duality<br>• Director's shareholdings<br>• Gender ratio<br>• Age<br>• Nationality | • Effort norms<br>• Cognitive conflict<br>• Knowledge/skills<br>• Cohesiveness<br>• Communication<br>• Affective conflict<br>• Trust |

Refining the work of Forbes and Milliken (1999) and Zahra and Pearce (1989) and deriving his model inspiration from Farquhar (2011) and Minichilli et al. (2012), Jansen (2021, p. 1339) adopts an input-process-output model of board effectiveness with board characteristics as input, board process/roles as process, and board effectiveness as output. In his theoretical construct, board characteristics are used as control variables while board processes are considered independent variables for board effectiveness, the dependent variable. Deshani and Ajward[47] (2021, p. 21) adopt 19 board

[47] Deshani and Ajward (2021, p. 21) have for their independent variable for board effectiveness these 19 board characteristics: board independence, board size, board human capital, CEO duality, board shareholding, board diversity, existence of audit, remuneration and nomination committees, audit committee size, audit committee

characteristics encompassing both demographics and behavioral measures to create a comprehensive index for board effectiveness. These 19 board characteristics coincide with the board variables and processes indicated in Appendix A. The study of board effectiveness, however, remains challenging. Not only is the task of assessing board performance difficult to observe, but given the different firm operations and external factors affecting these firms, board effectiveness also "seems to be a local phenomenon, contingent on circumstances, involving relationships between directors in the executive of their roles" (Nordberg & Booth, 2018, p. 372).

independence, board expertise, board commitment, board cohesiveness, meeting practices, board power and the board roles of control, advisory, and strategy.