



# ANNUAL STATE OF BOARD EVALUATION IN THE U.S. 2023



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# INTRODUCTION

**Each year, Korn Ferry publishes research on the current state and emerging trends in U.S. public company board evaluation practices.**

As in previous years, we partnered with Gibson, Dunn & Crutcher LLP<sup>1</sup> to review the board evaluation practices for S&P 500 companies as disclosed in their proxy statements, conducting one of the largest surveys on the state of board evaluations in the U.S. and compiling findings in this report.

Korn Ferry and Gibson Dunn conducted research with a similar scope last year, so, when appropriate, comparisons will be made in this report.

The first notable finding is that nearly all of the S&P 500 – 487 companies or 97% – now disclose at least some information about their board evaluation process in their proxy statement, a 6% increase from last year.<sup>2</sup>

97%

of the S&P 500 now disclose information about their board evaluation process

<sup>1</sup> In preparing this paper, Korn Ferry partnered with attorneys and summer associates at Gibson, Dunn & Crutcher LLP in June – September 2023 to develop and conduct the S&P 500 survey.

<sup>2</sup> All percentages in this report represent percentages of the 487 disclosing companies, unless otherwise noted.

# HIGHLIGHTS FROM 2023 PROXY STATEMENTS

In new data available this year, we discovered that 30% of boards vary the way they conduct the board evaluation process from year to year, which may explain the following changes:

## INDIVIDUAL DIRECTORS

48% vs 59%

A decline in the number of companies disclosing they conducted individual director evaluations as part of their board assessment compared to 2022. 48% of disclosing companies in 2023 noted evaluating individual directors v. 59% in 2022.

## INTERVIEWS

49% vs 53%

A decline in the number of companies disclosing that they used interviews in the evaluation process. 49% of disclosing companies used interviews in the evaluation process in 2023 v. 53% in 2022.

## THIRD PARTIES

32%

of the disclosing boards used a third party either annually or periodically (representing an increase of 18 companies since 2022).



# S&P 500

## DISCLOSURE OF BOARD EVALUATION PRACTICES

# WHAT IS BEING EVALUATED?



expressly evaluate the board, its committees and individual directors; this figure fell from 58% last year



evaluate the board and its committees only; this figure rose from 39% last year



evaluate the board only



evaluate the board and individual directors



evaluate individual directors only

\*Note: Percentages do not add to 100% due to rounding.

## **Korn Ferry comment:**

This year, fewer companies explicitly noted that they evaluate individual directors in their proxy statements. It's unclear, however, to what degree this reflects an actual divergence in practice versus imprecise disclosure. It may also be the case that, since variety is the spice of life and board evaluations, there were companies that conducted individual assessments last year that skipped them in 2023. We remain convinced that boards should be assessing individual directors as part of the renomination process and also to encourage continuous improvement in board effectiveness.

# HOW ARE THE EVALUATIONS CONDUCTED?

87%

described the nature of their board evaluation assessments, and 96% of those companies expressly use **self-evaluations** of the board, its committees, or its directors

50%

use a **written questionnaire or survey** to conduct their board evaluation

49%

use **interviews** in the evaluation process

7%

use **group discussions** to collect feedback

5%

have **senior management (other than the CEO) provide feedback** on the board

0%

of the disclosing companies reported using **third-party observation** of board or committee meetings to collect feedback

## Korn Ferry comment:

While written questionnaires and surveys can be useful in a board evaluation, interviews are usually more insightful as they enable board directors to provide additional perspective. A comment box in a survey that leaves a written record does not work as well. We also believe boards should seek input from those members of senior management that work most closely with the board to determine whether there is alignment between the board and management on strategy and risk and how each works with the other.

# WHO LEADS THE EVALUATION PROCESS?

## 38%

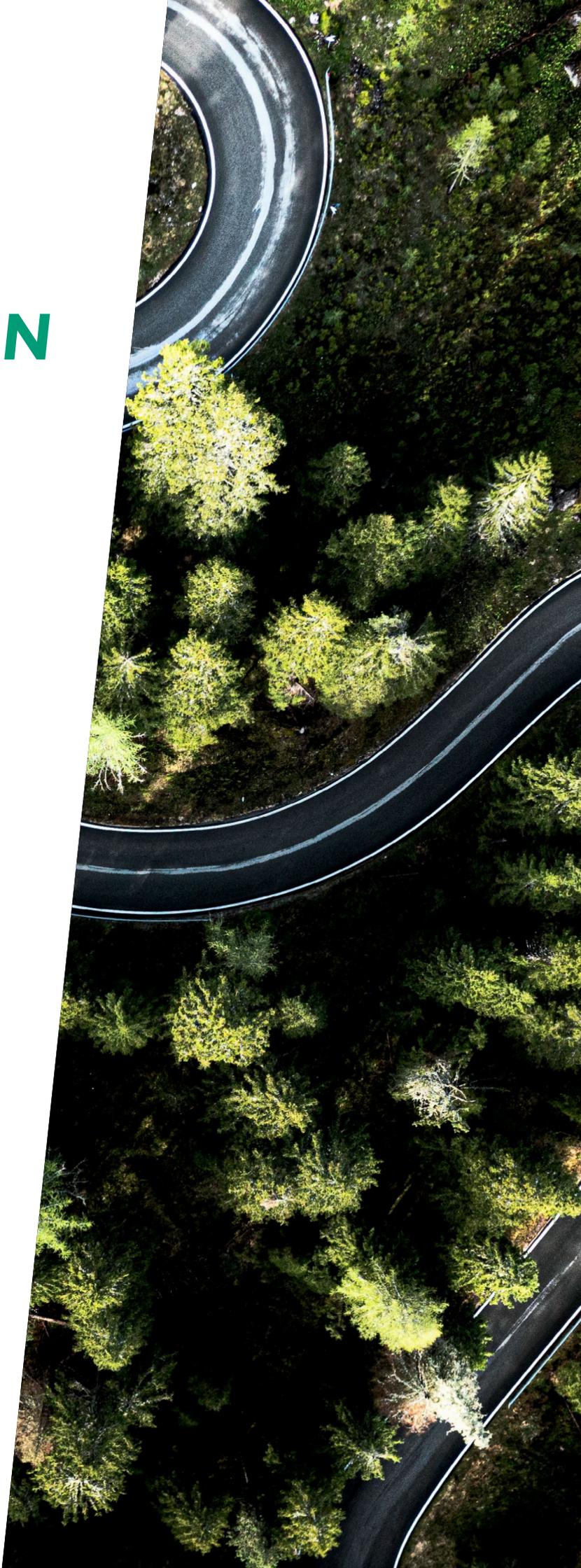
reported that their board evaluations are led by an independent board leader (such as the lead independent director, board chair, or a committee chair)

## 2%

said they were led by the general counsel, chief legal officer, or corporate secretary, representing a 5% decrease from last year

### **Korn Ferry comment:**

Legal teams may play a helpful role in supporting the board's evaluation process, but having the board's leadership endorse the importance of the process by leading it makes it less likely that the evaluation becomes a compliance exercise and is actually used to improve the board's performance.



# THIRD-PARTY INVOLVEMENT

32%

report using a third party to conduct their board evaluation

18

more companies report using a third party compared to 2022

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**Of these 157 companies, 143 (or 91%) discussed how often they used a third party as follows:**

73%

use third parties periodically

27%

use third parties annually

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**22% of these companies disclosed the type of third party used:**

23

use a consulting firm

11

use a law firm

5

companies named the third party (up from 3 last year)

## **Korn Ferry comment:**

Most companies that use a third party do so periodically. This is consistent with the 30% of boards reporting that they vary their approach each year. The emerging standard would be to use a third party every three years, which has become the norm in parts of Europe such as the UK and France.

# WHAT TOPICS ARE COVERED IN THE EVALUATION

59% discussed the topics addressed in their board evaluation, down from 71% last year.

The three most common topics remained the same as last year:

**79%**

addressed board and/or committee skills and composition

**73%**

addressed board culture, dynamics, functioning, and/or operation

**69%**

addressed board and/or committee structure and responsibilities

Additionally:

**44%**

addressed board/management dynamics

**42%**

addressed strategic/financial/risk oversight

**38%**

addressed agenda quality and appropriateness

**36%**

addressed quality of information/materials to the board

**32%**

addressed succession (board and/or management)

**16%**

addressed diversity, equity and inclusion

**11%**

addressed director education

# WHAT WAS THE RESULT AND WHAT CHANGES ARE MADE FOLLOWING THE EVALUATION?

# 24%

of the disclosing companies in the S&P 500 reported they had made changes following the board evaluation.

Changes included updates to:

Board and/or committee structures

Board responsibilities, agendas and material

Board succession planning and refreshment

### **Korn Ferry comment:**

In a disappointing development, fewer companies discussed the topics they addressed in their board evaluations this year than last. Similarly to last year, about a quarter of companies disclosed whether they had made changes after their board evaluations. Obviously, it is a step further to disclose changes made rather than only the topics covered in the evaluation, but both could be valuable to investors and other stakeholders. Such disclosures would also demonstrate that the board takes its quest for continuous improvement seriously.

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# STAKEHOLDER PERSPECTIVES ON DISCLOSURE FROM GIBSON, DUNN & CRUTCHER LLP

**Board evaluations can be a critical tool to enhance overall board performance and effectiveness, as well as to guide and support the board's refreshment strategy and director succession planning process. In addition, there are a number of stakeholder-driven benefits to companies from conducting and disclosing in the proxy statement a robust board evaluation process:**

## **Demonstrating compliance with regulatory requirements:**

Although Nasdaq does not require its listed companies to conduct a board evaluation, the New York Stock Exchange expects its listed companies to annually conduct an evaluation for both the full board and each of the key board committees (audit, compensation, nominating).

## **Providing investors a glimpse inside the boardroom:**

As director elections become more challenging and the stakes become higher, including with the adoption of universal proxy and the impact on proxy contests, it is increasingly important for companies to provide investors with additional information in the proxy statement (beyond what's required by SEC rules) to show that the board is taking an active stewardship role to protect the long-term interests of shareholders. Disclosure around board evaluations is one area where companies can set themselves apart.

## **Improving corporate governance scores:**

Disclosure around the board's evaluation process can be a factor in certain ESG-related scoring methodologies. For example, proxy advisory firm ISS factors these disclosures into the determination of a company's QualityScore, including whether individual director performance evaluations and/or external assessments are used, which scores are available to the public and included in ISS' company voting reports.

## **Demonstrating robust corporate governance practices:**

Investors, proxy advisors and prominent organizations within the governance community, such as the Business Roundtable, Council of Institutional Investors and Investor Stewardship Group, consistently cite the board evaluation process as a key tenet for effective corporate governance.

Companies have significant flexibility in determining the process to be used for the board evaluation process. However, from a liability and discoverability risk mitigation perspective, regardless of the format selected to conduct the board evaluation, it is important to consult with counsel (whether inside counsel or outside counsel) on considerations for structuring the process in a manner that can help protect its confidentiality.

# CONDUCTING A BOARD EVALUATION FOR CONTINUOUS IMPROVEMENT

Board evaluations in the U.S. vary enormously from those boards conducting a simple survey to others who engage consultants to conduct the evaluation. We now know that 30% of the S&P 500 (who disclosed anything about their evaluation) report that they vary their approach year-on-year as well.

**Making sense of that whirl of activity is important.**

In our view there are three important elements to a successful board evaluation:

1

Evaluation  
format

2

Scope and  
topics covered

3

Findings and  
outcomes





# 1 EVALUATION FORMAT

**Board evaluations need to move beyond simply reviewing a board's structure and internal processes. Instead, evaluations could focus on topics including board diversity, inclusion, director tenure, and the board's relationship with management – none of which are easy to address in a survey.**

We have seen too many board surveys in which directors score everything four or five out of five and are wary of writing comments, even when invited to do so.

There are better ways to conduct a board evaluation which can drive a cycle of continuous improvement:



## Confidential Interviews

Confidential, individual interviews with each board director and members of management who work closely with the board (e.g., the CFO and GC) are a powerful tool to collect more candid feedback.



## Surveys

Surveys can add supplementary value if a board aims to track data over time. However, surveys should not be a replacement for an interview-based evaluation process.



## Benchmarking

Benchmarking the practices and composition of peer companies and/or best-in-class companies is another useful board evaluation tool. Comparing board composition and structure with other organizations can create new insights.



## Board discussion

There are too many boards who give scant time to discuss and agree actions coming out of a board evaluation. In the spirit of continuous improvement, boards should set aside quality time for discussion in a board meeting or at an offsite.

Board evaluations do not have the same focus and format each year, as this report shows.

## EMERGING BEST PRACTICE: VARYING THE APPROACH TO EVALUATION EACH YEAR

One S&P 500 healthcare company that has performed exceptionally well in recent years noted in its disclosure that they intentionally change the format of their board evaluations. For two years, the board evaluation typically consists of a written questionnaire containing qualitative scaled and open-ended questions. Then, every third year, the written evaluation process is supplemented by oral interviews and an analysis of board and committee effectiveness conducted by an independent consultant.



# 2 SCOPE & TOPICS COVERED

In our view the board evaluation process ought to consider what we call the “4xPs”. We believe boards work most effectively when there is alignment between their **purpose**, their composition (**people**), their **process** and structure, and their approach to **partnership** with each other and with management and other stakeholders. Strong board leadership is required to activate board effectiveness.

Building the evaluation to cover these topics will give boards the opportunity to move from a check-the-box compliance evaluation to one that can be used to drive continuous improvement in board performance.

Korn Ferry’s approach to board effectiveness (the 4xPs):

### Purpose: what the Board focuses on

- Company Purpose
- Board Role
- Strategy and Risk Alignment
- CEO Succession Planning
- Sustainability/ ESG/HCM\* Oversight
- Corporate Governance Policy Review

### People: who sits at the table

- Collective Board Skills and Experiences
- Board Leadership Roles and Succession
- Longer-term Board Succession Planning
- Individual Director Contribution & Peer Review
- Board Diversity
- Onboarding and Continuing Education

### Partnership: culture and relationships

- Board Relationships with Management
- Board Culture & Dynamics
- Board Inclusion
- Stakeholder Relationships

### Process & Structure: how work gets done

- In Person and Virtual Meetings
- Agendas and Charters
- Committee Structure
- Information Flow
- Meeting Materials



\*ESG: Environment, Social and Governance. HCM: Human Capital Management

# 3 FINDINGS & OUTCOMES

There are two aspects of effective follow through:



Board leaders (usually including the CEO) should review the results and align around each recommendation to prioritize. There should be an action plan for each recommendation, with target timeframes, owners, and progress updates to the board or relevant board committee, usually the nominating and governance committee.



There should be effective disclosure of the evaluation process and selective outcomes. Let investors know the board takes continuous improvement seriously.

This might include an overview of the:

- Process
- Key takeaways
- Updates on the key takeaways from prior year evaluations



# CONCLUSION

**The National Association of Corporate Directors Nominating and Governance Committee Blueprint published in May 2023, and developed in partnership with Korn Ferry, stated:**

“Board evaluation should not be just a check-the-box procedure, but a thoughtful exercise that produces insightful and actionable outcomes. Additionally, results of director evaluations should be included in decisions to renominate directors.”<sup>3</sup>

In 2019, the Council of Institutional Investors Research and Education Fund noted: “Robust evaluation processes provide an important conduit for change as companies require new skills, perspectives and strategies over time. For this reason, investors increasingly regard the review process and its disclosure as key opportunities to enhance board effectiveness and shareholder value.”<sup>4</sup>

Board evaluations are impactful and promote the board performing as a strategic asset for the company - whether public or private. Independent third parties serve as a resource in conducting a nuanced review; please contact us to discuss how your board can enhance its effectiveness.

3. <https://perma.cc/TX9A-K245>

4. <https://www.ciiref.org/boardevaluationdisclosure>



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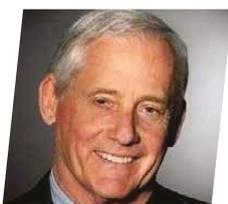
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