

Annual state of board evaluation in the U.S.

2021



| Introduction

Korn Ferry researched the current state of play and emerging trends in the U.S. public company board evaluation practices for 2021.

Our initial focus is on the listed companies in the Fortune 250. We asked Gibson, Dunn & Crutcher LLP¹ to review the 236 companies (94%) that disclosed at least some information about their board evaluation process in 2021.² According to those disclosures, highlights from the 2021 season include:

42%

evaluated individual director performance.

45%

used interviews as part of the board, committee, or director evaluation process.

33%

had used a third-party to conduct or facilitate the evaluation in 2020 or in a prior year.

¹ In preparing this paper, Korn Ferry partnered with attorneys and summer associates at Gibson, Dunn & Crutcher LLP in June-July 2021 to develop and conduct the Fortune 250 survey.

² We reviewed what these companies disclosed about their board evaluations in the latest proxy statement and/or ESG report. While not a comprehensive review of the evaluation process (or lack thereof) undertaken by the thousands of corporate boards operating in the U.S., the Fortune 250 provides insight into the direction in which standard/ best practice is heading.



Fortune 250 disclosure of board evaluation practices

Scope & topics covered

61% (145 companies) disclosed the topics addressed in the evaluations.

Of these, the three most common topics were:



Board and/or committee structure and responsibilities, noted by **66%**



Board and/or committee skills and composition, noted by **58%**



Board culture, dynamics, functioning, and/or operations, noted by **55%**

Findings & outcomes

Only **21%** (50 companies) disclosed the changes made following these evaluations.

Examples of the types of changes disclosed included:



Updates to board and/or committee structures, responsibilities, agendas, and materials



Board succession planning and refreshment



Key takeaways for U.S. boards

Korn Ferry's view

What for many decades has been a check-the-box, survey-based exercise, the typical U.S. board evaluation has in recent years undergone an overhaul. In the past, the corporate secretary generally collected simple and non-anonymous feedback from directors on routine board functions

with report-outs that yielded little material improvement in board performance. Now, board assessment is evolving quickly. An effective board is a strategic asset, not a compliance hurdle.

Several key global trends in corporate governance have contributed to this shift in approach:



Scrutiny

Ever increasing scrutiny of board composition, processes, remit, risk management and performance



Prescription of governance requirements

Increasingly detailed rules and policies, for example on diversity and independence. Focus on preventing over-boarding



Diversity

Gender and race/ethnicity diversity required by investors and proxy advisors and mandated in several states. More focus on underrepresented groups, including LGBTQ+



Digitalization

Digital disruption is pervasive and continues to be transformative – with deep implications for competitive advantage and cyber risk and consequences for board composition



ESG

Environmental issues at the top of the board agenda affecting a wide range of industries. Elusive search for climate-competent boards. New focus on Human Capital Management and Diversity Equity and Inclusion within the 'S'



Stakeholders not just shareholders

Employee/societal engagement elevated to board level



Activism

The phenomenon of shareholder activism continues to remain a prevalent theme with strong interest in ESG activism

Being a corporate board director is more challenging than it used to be. The opportunity for reflection offered by a robust board evaluation is an opportunity to raise the bar on board performance

What constitutes an impactful board evaluation?

Method

A best practice board evaluation approach (also known as a board review or board assessment) varies year-to-year. Typically, there is an objective, third-party review about every three years to complement an internally led process the other two years.

For many years, boards evaluated themselves solely on the effectiveness of their structure and processes.

Increasingly, concern has shifted to who sits at the table and for how long, how to ensure newly diversifying boards are inclusive, and how to strike the right relationship with management. It is much harder to get at those issues with an annual survey. Those issues require board leaders to engage directly with each board member and the candid give-and-take of constructive feedback.

Board directors know if the board is ineffective, but they may have a hard time identifying the root causes given they are also part of the system. That is why an external perspective can also be helpful.

Scope

Board evaluation content can also vary year-to-year. For example, it may not be necessary to conduct an individual director peer review every single year. Other topics, such as board succession planning, require annual consideration.

At Korn Ferry, we believe boards work most effectively when there is alignment between their purpose, their composition (people), their approach to partnership, and their process and structure: we call these the 4xPs.



Feedback & impact

The real software at the heart of a successful board evaluation is human. Whether conducted by the board leadership or by an external advisor, it is the trusted and candid connection between people that generates the deepest and most valuable insights.

Collecting feedback from each director and select members of management who work most closely with the board (for example, the Chief Financial Officer and General Counsel), the process should protect confidentiality as much as possible to inspire real candor.

Conclusions should be aggregated into a digestible report, each with an accompanying recommendation that is specific and actionable. Board leaders (usually including the CEO) should review and align around several recommendations to prioritize. Individual director reviews should be constructive and based on peer feedback to provide rich, developmental-focused insights for each board member.

Follow through



Action plan

Prioritized, actionable recommendations with target timeframes, owners, and progress updates



Disclosure

Disclosure of the evaluation process and outcomes lets investors know the board takes continuous improvement seriously and could include overview of:

- Process (e.g., using a third party)
- Key takeaways (e.g., next steps for identified areas of improvement)
- Updates on key takeaways from prior year evaluations

Boards need an approach to evaluation that is:

Objective. Candid. Confidential. Actionable.

to enable boards to act as a strategic asset to their organizations

Our View of Board Effectiveness: the 4xPs

Boards work most effectively when there is alignment between their purpose, their composition (people), their approach to partnership, and their process and structure: the 4xPs. Strong board leadership is required to activate board effectiveness.

Purpose

What the Board focuses on

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

Process & Structure

How work gets done

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

People

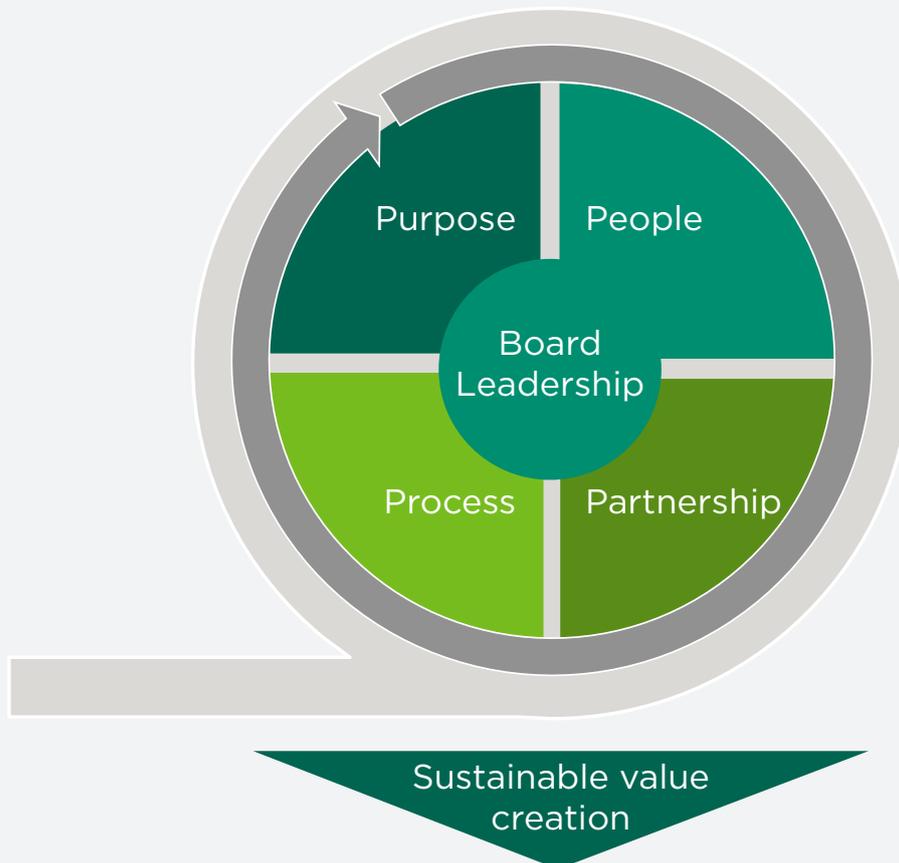
Who sits at the table

- Board Leadership Roles and Succession
- Longer-term Board Succession Planning
- Individual Director Contribution and Peer Review
- Board Diversity
- Board Education
- Onboarding and Offboarding

Partnership

Culture & relationships

- Board Leadership Coaching
- Board Relationship with Management
- Board Culture and Dynamics
- Board Inclusion
- Stakeholder Relationships



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Ms. Oliva works across industries advising a broad spectrum of companies on board performance and CEO/executive succession planning needs, including board assessment and effectiveness, board composition and succession planning, corporate governance and ESG, board matters in special situations (including pre- IPO/SPAC, board mergers, shareholder activism), and CEO/ executive succession planning (including executive assessment and development planning).



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Mr Griesedieck is the Vice Chairman at Korn Ferry as well as Managing Director of the firm's Board Advisory Services practice. With more than 40 years in the executive search profession, Mr. Griesedieck is considered to be one of the industry's premier leaders. His primary focus at Korn Ferry is on board advisory and consulting, working with public and private company chairmen and governance committee chairs across multiple industries to assist them with planning for board succession and leading board effectiveness reviews.



Korn Ferry is a global organizational consulting firm. We work with our clients to design optimal organization structures, roles, and responsibilities. We help them hire the right people and advise them on how to reward and motivate their workforce while developing professionals as they navigate and advance their careers. Our 7,000 experts in more than 50 countries deliver on five core areas: Organization Strategy, Assessment and Succession, Talent Acquisition, Leadership Development, and Total Rewards.