



Building a better
working world

The background of the page is a photograph of people celebrating at night. They are holding up lit sparklers, which are creating bright, colorful bursts of light against a dark sky. The scene is festive and celebratory.

EY Center for Board Matters How companies are evolving board evaluations and disclosures

Effective board evaluations can drive better board performance. So how are today's leading boards evolving their evaluations to enhance effectiveness, and what are their companies communicating to stakeholders about their board evaluation processes?

Last year we reviewed proxy statements filed by Fortune 100 companies to identify disclosures on notable board evaluation practices and to outline elements in designing an effective evaluation process. This publication compares the data to this year, enabling year-over-year comparison of disclosures related to key board evaluation practices. We find that Fortune 100 companies are enhancing disclosures

about their board evaluation processes – with some substantial differences in disclosure year over year. Boards are adopting more practices for effective evaluations, such as individual director evaluations, peer evaluations and use of third parties to facilitate the evaluation, and expanding disclosures around evaluation topics and resulting actions.

Board evaluation practices

Leading the evaluation process

Leadership is key in designing and implementing an effective evaluation process that objectively elicits valuable and candid director feedback about board dynamics, operations, structure, performance and composition.

A strong majority, 73%, of 2019 Fortune 100 proxy filers disclosed that their corporate governance and nominating committee performed the evaluation process either alone or together with the lead independent director or chair – a modest increase from 69% in 2018. These companies also disclosed that evaluation leaders did or could involve others in the evaluation process, including third parties, internal advisors and external legal counsel. Twenty-seven percent of Fortune 100 proxy filers disclosed using or considering the use of an independent third party to facilitate the evaluation at least periodically – an increase from 22% in 2018.

Evaluation of individual directors and peers

Board and committee evaluations have long been required of all public companies listed on the New York Stock Exchange. Today, board and committee evaluations are standard practice for all public companies.

Boards are continuing to expand their evaluation process to include individual director self- and peer evaluations. Approximately 40% of 2019 Fortune 100 proxy filers disclosed that they included individual director self-evaluation along with board and committee evaluation, up from 25% in 2018. Twenty-five percent of 2019 Fortune 100 proxy filers disclosed that they conducted peer evaluations, more than double the 10% in 2018.

Prioritizing and disclosing evaluation topics

Board, committee and individual director evaluation topics should be customized and prioritized to elicit valuable, candid and useful feedback on board dynamics, operations, structure, performance and composition. Relevant evaluation topics and areas of focus should be drawn from:

- ▶ Observations relevant to board dynamics, operations, structure, performance and composition
- ▶ Company reputation, culture, strategy, human capital management, risk management and overall performance
- ▶ Investor and stakeholder engagement on board composition, performance and oversight
- ▶ Analysis of board and committee minutes and meeting materials

- ▶ Board governance documents, such as corporate governance guidelines, committee charters, director qualification standards, as well as company codes of conduct and ethics

Approximately half of 2019 Fortune 100 proxy filers disclosed the general topics covered by the evaluation, up from 40% in 2018.

Conducting the evaluation: questionnaires and interviews

About 30% of 2019 Fortune 100 proxy filers disclosed using both questionnaires and interviews in their evaluation process – up from 26% in 2018, 15% disclosed use of questionnaires only – consistent with 2018, and 13% disclosed use of interviews only – slightly down from 15% in 2018.

Using a third-party facilitator

Use of third-party experts, such as governance advisory firms or external counsel, to facilitate the evaluation process is increasing. Twenty-seven percent of 2019 Fortune 100 proxy filers disclosed having a third-party facilitate their evaluation at least periodically, typically stated as every two or three years, up from 22% in 2018.

Intra-year evaluations and ongoing feedback

Board evaluations generally are performed annually. Board performance is enhanced when feedback is delivered more promptly – either in real time or over a short-term period, as observed.

This year, 18% of proxy filers in the 2019 Fortune 100 disclosed that they carry out phases of the evaluation process on an ongoing basis, at every in-person meeting, quarterly, biannually or otherwise during the year – about double the number in 2018.

Disclosing the evaluation process and evaluation results

A vast majority, 93%, of 2019 Fortune 100 proxy filers provide at least some disclosure about their evaluation process, nearly the same as in 2018. We continue to observe variances in the scope and details of the disclosures.

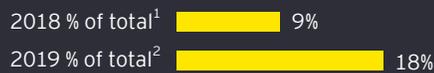
About 25% of 2019 Fortune 100 proxy filers disclosed, at a high level, actions taken as a result of their board evaluation, up from about 20% in 2018.

Conclusion

Investors, regulators, other company stakeholders and governance experts are continuing to challenge boards to examine and explain board performance and composition. Indeed, many stakeholders note board effectiveness and composition as a top priority and foundation for long-term value creation and sustainability. Boards are listening. They are enhancing their evaluation practices, addressing the need for increased board diversity, expertise and effectiveness, and better communicating their work to investors and other stakeholders. Continuous improvement is the new mantra – for boards, and also management, talent and companies themselves. Boards should embody – and their disclosures should reflect – this mantra.

Observations about Fortune 100 company board evaluation practices

Evaluation process is ongoing



Performed individual director self-evaluation, in addition to board and committee evaluation



Conducted peer evaluations



Used or considered using a third party at least periodically to facilitate the evaluation



Used both questionnaires and individual director interviews to conduct the evaluation



Provided board evaluation disclosures in their proxy statement



Identified in the proxy statement general topics covered in the evaluation



Disclosed in the proxy statement general actions taken as a result of the evaluation



1 Data based on the most recent proxy statements available for the 86 public companies on the 2018 Fortune 100 list.

2 Data based on the most recent proxy statements available for the 79 public companies on the 2019 Fortune 100 list.

Questions for the board to consider

- ▶ Has the most recent evaluation process enabled the board and individual directors to identify actions to optimize board and director performance and board composition?
- ▶ Does the evaluation process provide validation to each director that he or she is the right director at the right time for the right company?
- ▶ Does the board as a whole and each director have a common and clear understanding of the term "effectiveness" as applied to the board as a whole, its committees and each director individually?
- ▶ Has the board formulated clear goals, objectives and standards for itself, its committees and each director that can be referenced during and outside of the evaluation process? If the board has director qualification standards, should they be expanded in more specific ways to include standards and requirements that each director must consistently meet to earn renomination?
- ▶ Does the evaluation process include components that occur on a biannual, quarterly and/or real-time basis? If not, why not?
- ▶ Is the evaluation process appropriately synergized with the board's annual governance review, orientation and education programs, director nomination process, succession planning and stakeholder engagement programs?

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Effective corporate governance is an important element in building a better working world. The EY Center for Board Matters supports boards, committees and directors in their oversight role by providing content, insights and education to help them address complex boardroom issues. Using our professional competencies, relationships and proprietary corporate governance database, we are able to identify trends and emerging governance issues. This allows us to deliver timely and balanced insights, data-rich content, and practical tools and analysis for directors, institutional investors and other governance stakeholders.

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