

EY Center for Board Matters

How boards are strengthening their self-assessments and related disclosures

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. The 'E' and 'Y' are connected at the top. A yellow diagonal line is positioned above the 'Y'.

Building a better
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The board evaluation process is a critical opportunity to enhance multiple dimensions of board effectiveness and strengthen governance practices. Rigorous evaluation enables boards to identify the changes needed to effectively steward the company now and into the future.

Board evaluations can help boards reset expectations for directors and management and strengthen the board's relationship with management. They can also identify opportunities to adapt and advance board leadership, structure, dynamics, decision-making processes, operations, information practices, and education opportunities.

Disclosures about the board's evaluation process and high-level outcomes can enhance investor understanding and trust in the rigor of a board's oversight by offering a valuable window into the rigor of the board's self-assessment and its commitment to continuous improvement.

For the fourth consecutive year, the EY Center for Board Matters (CBM) has reviewed proxy statements filed by Fortune 100 companies to identify trends in board evaluation practices and disclosures. Nearly all (94%) of 2021 Fortune 100 proxy filers provide at least some disclosure about their evaluation process, in line with prior years, with the scope and details of the disclosures continuing to vary.

Over time we observe significant enhancements in how boards are assessing themselves and communicating those efforts to stakeholders.

In brief

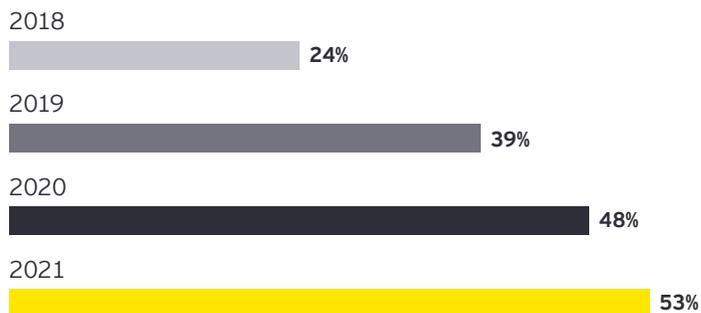
- ▶ Using disclosures to demonstrate the rigor of the board evaluation program, including the evaluation process and outcomes, can foster investor confidence.
- ▶ More boards are evaluating individual directors along with board and committee assessments and using third parties to facilitate evaluations.
- ▶ Boards are also addressing certain evaluation matters and collecting feedback on an ongoing basis – not just during the formal annual process.

Evaluation of individual directors continues to increase

Since 2018, the most significant change we have observed is that more boards are expanding their evaluation process to include individual director evaluations. A majority (53%) of 2021 Fortune 100 proxy filers disclosed that they performed individual director evaluations along with board and committee evaluations, up from 24% in 2018.

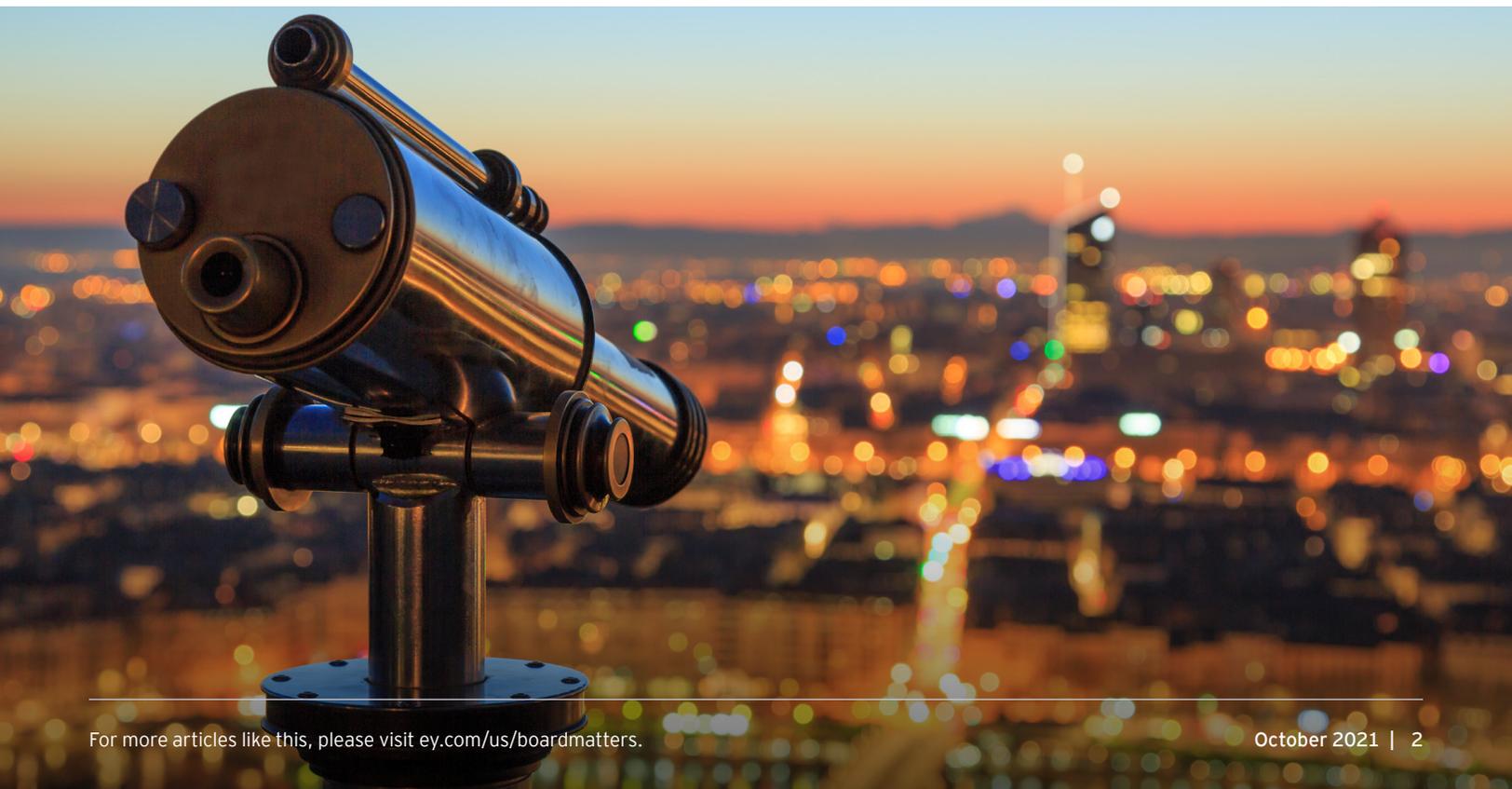
Among the companies that disclosed performing individual director evaluations, it was not always clear whether that assessment involved peer evaluation, director self-evaluation or both. Thirty-one percent made clear that the individual director evaluation component includes director peer evaluations, up from 10% in 2018, and 8% made clear that it involves self-evaluation, up from 5% in 2018. Companies may want to clarify in their disclosures the nature of the individual director evaluations and how those assessments inform the board's nomination and succession planning processes.

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



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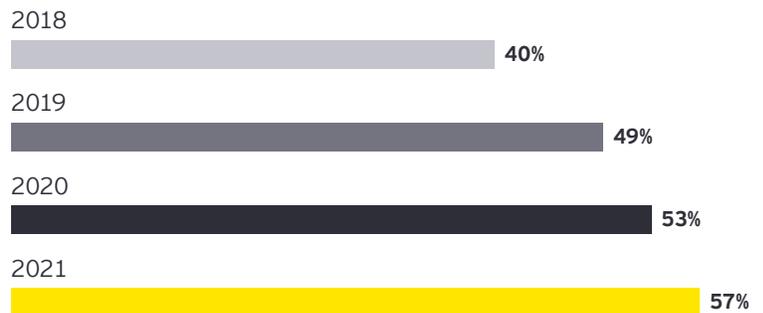
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Most companies now are disclosing topics covered in the evaluation

A majority (57%) of 2021 Fortune 100 companies disclosed the general topics covered in their board evaluation program, up from 40% in 2018. Companies may consider disclosing how board assessment topics are changing to address continued areas of stakeholder focus (e.g., quality of board deliberation, oversight of strategy, and risk and succession planning) as well as emerging issues (e.g., corporate purpose, environmental, social and governance (ESG), human capital, and culture).

Identified in the proxy statement general topics covered in the evaluation



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Examples of evaluation topics disclosed by Fortune 100 companies

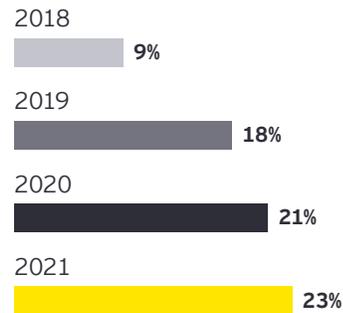
Full board	Specific committees	Individual board directors
<ul style="list-style-type: none"> ▶ Timing and agenda of meetings ▶ Quality and scope of pre-read materials and management reporting ▶ Quality and candor of board deliberations, including encouragement of diverse views ▶ Performance in key areas (e.g., oversight of strategy, risk and succession planning) ▶ Board dynamics, culture and setting the “tone at the top” ▶ Board composition, diversity and refreshment, including how these reflect the company’s strategy and risk profile ▶ Relationship with management ▶ Director education opportunities ▶ Leadership and committee structures ▶ Governance policies and practices 	<ul style="list-style-type: none"> ▶ Committee process ▶ Sufficient meetings covering the right topics ▶ Effectiveness of meeting materials and presenters ▶ Composition and culture ▶ Additional education or training needs ▶ Contributions of committee members ▶ Responsibilities and charter 	<ul style="list-style-type: none"> ▶ Understanding of the business ▶ Meeting preparation and attendance ▶ Meaningful and constructive participation in and contributions to board activities ▶ Applicable skill set to current needs of the business ▶ Demonstrated independence ▶ Strategic foresight ▶ Openness to new learning and training opportunities

More companies are emphasizing a process of ongoing assessment

In 2021, nearly a quarter (23%) of Fortune 100 companies disclosed that they address certain evaluation matters and proactively seek feedback on an ongoing basis, beyond the formal annual evaluation – more than double the 9% that did so in 2018. Being timely and agile with ongoing evaluations allows boards, committees and directors to proactively identify and address information needs and other emerging issues. Spotting and addressing issues in real time avoids deepening problems and enables continuous improvement.

Anecdotally, the CBM often hears from directors that board and director performance is assessed in a real-time manner as part of an executive session or at the conclusion of a board or committee meeting. In such cases, boards might consider how disclosure of these practices and outcomes could better reflect their efforts.

Evaluation process is ongoing



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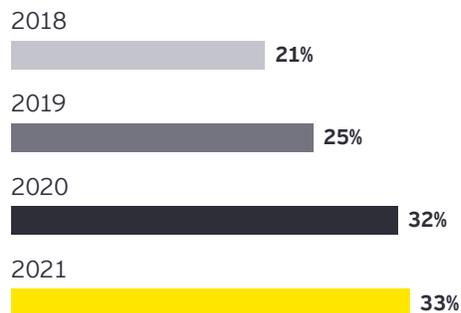
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Many companies are making disclosures about changes made in response to evaluations

This year, a third of Fortune 100 companies disclosed, typically at a high level, actions taken as a result of their board evaluation, up from 21% in 2018. This increase is responsive to increasing investor interest in the results of a board’s evaluation process. Articulating key outcomes and specific areas of focus for improvement, including changes to the board evaluation program itself, allows boards to demonstrate the rigor of their evaluation programs and their commitment to effectiveness in ways that can foster investor confidence.

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



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Example Fortune 100 company disclosures about changes made in response to evaluations

- ▶ Adapted agendas to be more focused on strategic priorities
- ▶ Enhanced discussion about areas of emerging risk
- ▶ Refined meeting structure to allow sufficient time for discussion, in-depth reviews and executive sessions
- ▶ Changed the quantity and depth of information in meeting materials to streamline materials and highlight the most important information
- ▶ Enhanced meeting presentations so that they complement and add insight beyond written meeting materials
- ▶ Added to the range of information on ESG- and human capital management-related topics at the board and committee level, including regular updates on implementation of the company’s ESG commitments
- ▶ Provided educational opportunities during regularly scheduled meetings and through access to third-party programs, with an emphasis on topics requested by directors and current events and trends
- ▶ Assigned additional responsibilities to the lead independent director
- ▶ Changed the distribution of oversight responsibilities across the board and committees
- ▶ Increased focus on board succession planning and refreshment, including developing and maintaining a long-term director candidate pipeline
- ▶ Increased the frequency of off-cycle board touch points and communications and increased time for informal director gatherings

What is the CBM hearing from investors on board effectiveness and evaluations?

Investor views on board effectiveness may help boards identify priority areas of assessment. They may also help inform what companies communicate about those areas related to board evaluation topics of focus and outcomes.

In the fall of 2020, CBM had conversations with governance specialists from more than 60 institutional investors representing more than US\$38 trillion in assets under management. We asked those investors what steps they want boards to take to strengthen their effectiveness in the current environment. The topics those investors focused on were:

- ▶ **Board refreshment** – Around 40% of investors expressed a desire for boards to have stronger discipline around turnover in the boardroom to better align board expertise with strategy and meet investor expectations for board diversity. They said a robust self-assessment process should play a key role in refreshment considerations.
- ▶ **Board diversity** – Around a third of investors focused on the opportunity for boards to enhance their effectiveness by diversifying across numerous dimensions, specifically including race, ethnicity, gender, skills, and experiences.
- ▶ **Board information practices and education** – Investors were interested in how boards are staying informed and receiving ongoing education to meet evolving oversight demands and navigate a rapidly shifting risk landscape. A point we heard consistently is the opportunity for boards to access more external expertise to help management look forward and see how external trends and stakeholder expectations are changing over time. Some investors also encouraged boards to assess the effectiveness of management reporting to the board, including the usefulness of the data and dashboards provided in enabling strategic oversight.

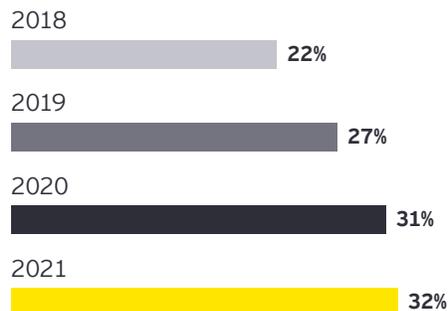
By enhancing disclosures around how these topics are incorporated in the board evaluation and any related outcomes, boards can demonstrate engagement on investor priorities.

More boards are using third-party facilitators

Our findings indicate that boards are increasing their use of third-party facilitators, such as governance advisory firms or external counsel, in the way board evaluations are designed and implemented and in the formulation of action items to address findings from the process. Third parties can assist with some or all parts of an evaluation, from reviewing or drafting evaluation questionnaires to designing and fully executing tailored evaluation programs.

Third parties bring market insight and practices that can enhance and strengthen assessment processes through an objective eye and deeper insights, as even the strongest board can have one or more blind spots or biases. Additionally, directors are often more direct, open and candid with a third party when providing overall insight or development areas of a peer director.

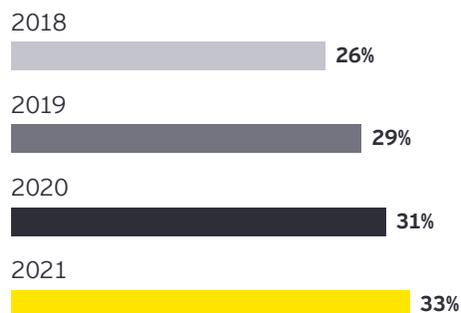
Used or considered using a third party at least periodically to facilitate the evaluation



More boards are using both questionnaires and interviews

Questionnaires can elicit thoughtful qualitative responses or quantitative ratings that can be complemented without attribution and analyzed to identify matters for discussion and action on improving effectiveness. Questionnaire responses and analysis can also be used to meaningfully focus individual one-on-one interviews with some or all directors to elicit additional information that can enhance overall performance.

Used both questionnaires and individual director interviews to conduct the evaluation



Approaching evaluations as a critical opportunity to enhance effectiveness

Rigorous board, committee and director assessments offer a meaningful opportunity to strengthen board effectiveness and governance practices. Approaching evaluations as an opportunity and using them to enhance a culture of continuous improvement can inform important adjustments to board agendas, processes, dynamics, meeting materials and resources, and board and committee composition. Communicating that process and key outcomes to stakeholders may enhance investor understanding and trust in the board's oversight.

Questions for the board to consider

- ▶ How can the board evaluation process be refreshed and strengthened to enhance overall board performance and address evolving stakeholder expectations?
- ▶ Are the topics and the depth of evaluation sufficient to uncover areas of strength and for improvement in board dynamics, structure and composition, information practices, meeting schedules and agendas, decision-making, and overall effectiveness?
- ▶ Is the evaluation process driving full participation and eliciting meaningful information and candor?
- ▶ Does the board use a third party to provide objectivity and facilitate or improve the evaluation process and results?
- ▶ Does the board evaluation process result in the timely identification of action items to improve performance that are calendared and promptly addressed as planned?
- ▶ Does the evaluation address whether all directors are candid with each other, provide and receive constructive criticism, and engage in healthy and rigorous debate? Does it uncover what steps can be taken to achieve stronger board dynamics?
- ▶ How is the board encouraging and maintaining a real-time feedback process where directors provide constructive advice and criticism on current board operations or performance?
- ▶ Is the evaluation process appropriately synchronized with the board's annual governance review, orientation and education programs, director nomination process, succession planning, and stakeholder engagement programs?
- ▶ How do the company's board evaluation disclosures communicate the rigor of the evaluation process and highlight meaningful outcomes, including those that reflect investor priorities?

Looking for more?

Access additional information and thought leadership from the EY Center for Board Matters at ey.com/us/boardmatters.

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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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