2016 | BOARD OF DIRECTORS
EVALUATION AND EFFECTIVENESS

In collaboration with TMG
WWW.GSB.STANFORD.EDU/CGRI
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EXECUTIVE SUMMARY AND KEY FINDINGS

BOARDS RATE THEMSELVES POSITIVELY ON PERFORMANCE, NEGATIVELY ON OPEN AND HONEST FEEDBACK.

EVALUATIONS FALL SHORT.

FEMALE DIRECTORS ASSESS BOARD EFFECTIVENESS, BOARD ROOM DYNAMICS, AND THE QUALIFICATIONS AND ENGAGEMENT OF THEIR FELLOW DIRECTORS MORE NEGATIVELY THAN MALE DIRECTORS

A new study conducted by the Rock Center for Corporate Governance at Stanford University and The Miles Group (“TMG”) reveals that while boards generally rate themselves positively in terms of skills and expertise, significantly high negatives are a cause for concern for a large number of firms.

“Directors generally believe they have the right composition of knowledge and experience on their board to oversee their company and management,” says Professor David F. Larcker of Stanford Graduate School of Business. “However, we find significant negative perceptions percolating under the surface. Many directors are dissatisfied with important elements of the boardroom, including the way individual directors are evaluated, the process for removing underperforming board members, and group dynamics in general. Companies would benefit from an honest evaluation of how their boardroom functions and a roadmap for improving deficiencies.”

“There is clearly sub-optimization happening in boards, and it has an impact on trust as well as overall board effectiveness,” adds Stephen A. Miles, CEO of TMG. “It is important that board members understand that there are clear and objective measures for their performance, and there could be steps taken if the needs of the enterprise are not being met. Boards take real work to be effective, and this involves improving both individual as well as group processes.”

“The negative perception of female directors is disconcerting,” observes Taylor Griffin, COO of TMG. “Regardless of whether this is due to being ‘outnumbered’ on the board or other factors, board leadership should take active steps to ensure that the contribution of all members is balanced and that conflicts and dissatisfactions are addressed.”

In summer 2016, TMG and the Rock Center for Corporate Governance at Stanford University surveyed 187 directors of public and private companies in North America to understand how they perceive the effectiveness of their boards, including its composition, leadership, and the evaluation process.

KEY FINDINGS INCLUDE THE FOLLOWING:

DIRECTORS GENERALLY BELIEVE THEIR BOARDS HAVE THE SKILLS NEEDED TO ADVISE AND OVERSEE THEIR COMPANIES.

The vast majority (89 percent) of respondents say that their board has the skills and experience necessary to oversee the company. Directors rate their boards a “4” on a scale of 1 to 5 in terms of effectiveness. Nearly three-quarters (73 percent) say that the individual directors on their board are extremely or very effective.

In particular, directors rate their boards favorably in terms of financial skills (85 percent believe these skills are well
represented), management experience (82 percent), industry experience (81 percent), and audit/accounting knowledge (81 percent). Directors give themselves the lowest marks for technical knowledge (47 percent), cybersecurity (18 percent), and social media (16 percent).

Boards are less effective in taking proactive steps to ensure that they maintain a proper mix of skills. Only half (57 percent) of directors strongly agree or agree that their board is effective in bringing new talent to refresh the board’s capabilities before they become outdated, only 42 percent regularly rotate directors to refresh committees, and only a quarter (23 percent) have a formal succession plan for committee chairs. Only one-third of directors (34 percent) rate their board very positively on planning for director turnover.

BOARD EVALUATIONS ARE A WORK IN PROCESS.
While board evaluations are a common practice, they are not universal. Eighty percent of companies conduct a formal evaluation; 20 percent do not.

Satisfaction levels with board evaluations are modest. Among companies that conduct evaluations, only 78 percent of directors are satisfied or very satisfied.

Board evaluations appear to be much less effective at the individual level. Only half (55 percent) of companies that conduct board evaluations evaluate individual directors, and only one-third (36 percent) believe that their company does a very good job of accurately assessing the performance of individual directors. Boards appear not to be effective in using the results of evaluations to improve individual performance. Only half (52 percent) believe their board is very effective in dealing with directors who are underperforming or exhibit poor behavior, while a quarter (26 percent) do not.

“Board evaluations should not be a perfunctory exercise,” says Professor Larcker. “They should serve as a tool for helping the board refresh itself, address areas of underperformance, and plan for the succession of key leadership positions. Having a rigorous and independent review is key.”

BOARDS FALL SHORT ON SEVERAL CRITICAL DIMENSIONS.
The results suggest that boards can improve in the following areas:

- **Trust levels are high, but not high enough.**
  Only two-thirds (68 percent) of board members say they have a very high level of trust in their fellow directors. Similarly, only 68 percent say they have a very high level of trust in management.

- **Regard for fellow directors is also not high enough.**
  The average director believes that at least one fellow director should be removed from their board because this individual is not effective. When asked how many fellow directors they would like to remove because they are ineffective, 28 percent
say 1 director, 18 percent say 2 directors, and 8 percent say that 3 or more directors should be removed. Only 48 percent of board members would keep all of the current directors on their board.

**Directors do not give each other honest feedback.**
Only a quarter (23 percent) of board members rate their boards very effective at giving direct feedback to fellow directors.

**The process for removing directors is unstructured.**
Only 65 percent of boards have a process for removing ineffective directors; an astonishing 35 percent do not. Verbatim responses indicate that companies use a wide variety of approaches for removing ineffective directors and that, for most companies, the process is haphazard. Approximately half (48 percent) of directors believe that their board should have term limits to facilitate turnover.

“Collaboration and trust in the boardroom are critical,” says Miles. “Directors need to know that their contributions are assessed fairly, and that a process is in place to deal with colleagues who underperform—including honest and constructive feedback, and their removal if necessary. This requires strong board leadership, as well as objective evaluations that are grounded in the actual performance of directors, the needs of the enterprise, and general best practices.”

**THERE IS AN OPPORTUNITY TO IMPROVE BOARDROOM DYNAMICS AND ACTIVE ENGAGEMENT.**
Directors have considerable opportunity to improve the performance of their boards by improving group dynamics and encouraging the active engagement of all members.

Only 72 percent of directors have a very positive view on their board’s effectiveness in inviting the active participation of all members and only 68 percent in inviting the active participation of new board members.

Only two-thirds (64 percent) of directors strongly believe their board is open to new points of view; half (56 percent) strongly believe that their boards leverage the skills of all board members; and less than half (46 percent) strongly believe that their board tolerates dissent. Forty-six percent believe that a subset of directors has an outsized influence on board decisions.

Other shortcomings in group dynamics include the following:

- Directors allow personal or past experience to dominate their perspective (74 percent say that this is somewhat or very much a problem).
- Directors do not express their honest opinions in the presence of management (53 percent).
- Directors are too quick to come to consensus (47 percent).
- Directors do not understand the boundary between oversight and actively trying to manage the company (44 percent).
- Fellow board members derail the conversation by introducing issues that are off-topic (39 percent).

“Board dysfunction comes from misalignment,” observes Griffin. “Either individual directors are not aligned among themselves or directors are not aligned with management. High-performing boards are able to have dissenting voices and encourage minority or extreme views without reticence. The goal is to encourage constructive and thoughtful dialogue, and engage with the issues.”
FEMALE DIRECTORS ASSESS BOARD EFFECTIVENESS, BOARD ROOM DYNAMICS, AND THE QUALIFICATIONS AND ENGAGEMENT OF THEIR FELLOW DIRECTORS, MORE NEGATIVELY THAN MALE DIRECTORS

Finally, female directors are significantly more likely to have negative views on their boards in the following dimensions:

- The effectiveness of their fellow directors
- The skills of their fellow directors
- The board’s ability to evaluate and give feedback to fellow directors
- Boardroom dynamics

When asked to rate their boards on various attributes, female directors are much less likely to say their board is very effective in asking the right questions (36 percent give a rating of very effective versus 69 percent for male directors), challenging management (48 percent versus 68 percent), inviting the active participation of new board members (48 percent versus 76 percent), leveraging the skills of all board members (38 percent versus 63 percent), and tolerating dissent (32 percent versus 53 percent).

“It might be the case that because female directors are a minority on boards they view boardroom dynamics through a more objective lens,” observes Professor Larcker. “Consistently high negative viewpoints should be a red flag in any evaluation, and board leadership should be serious about addressing problems so the entire board can function more effectively.”

RECOMMENDATIONS

To improve board functioning, the authors recommend the following:

1. Conduct a diagnostic where each director’s input is solicited around a variety of critical topics: board effectiveness, committee effectiveness, current board composition, the forward-looking needs of the board to meet the strategic needs of the enterprise, board structures and processes, agendas and materials, board interface with management, board succession process, and board leadership.

2. Provide a detailed report of the findings. Include recommended actions based upon short-, medium-, and long-term timeframes. Develop a skills-and-experience matrix to assist with board refreshment efforts, individual director coaching plans, and feedback sessions to provide directors with more detailed feedback around their effectiveness.

3. Create a process that is as independent as possible. Identify a point person on the board accountable for managing the process and following through on its recommendations. Develop a process for removing underperforming directors.
Review of Findings

1. What is the total number of corporate boards (public and private) that you serve on?

<table>
<thead>
<tr>
<th>Full Sample</th>
<th>Average</th>
<th>Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>One</td>
<td>2.5</td>
<td>2</td>
</tr>
<tr>
<td>Two</td>
<td>26%</td>
<td>19%</td>
</tr>
<tr>
<td>Three</td>
<td>28%</td>
<td>9%</td>
</tr>
<tr>
<td>Four</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>Five</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>Six or more</td>
<td>7%</td>
<td></td>
</tr>
</tbody>
</table>

2. What is the ownership status of the company that you are more closely affiliated with as a director?

<table>
<thead>
<tr>
<th>Full Sample</th>
<th>Public Company</th>
<th>Private Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>72%</td>
<td>28%</td>
<td></td>
</tr>
</tbody>
</table>

3. What is your position on this board? (select all that apply)

<table>
<thead>
<tr>
<th></th>
<th>20%</th>
<th>9%</th>
<th>14%</th>
<th>62%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman of the Board</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lead Independent Director</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executive Director</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outside Director</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4. How many directors serve on this board?

Full Sample

<table>
<thead>
<tr>
<th>Number of Directors</th>
<th>Full Sample</th>
<th>Public Company</th>
<th>Private Company</th>
<th>Male Directors</th>
<th>Female Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Six or fewer</td>
<td>17%</td>
<td>8%</td>
<td>43%</td>
<td>14%</td>
<td>19%</td>
</tr>
<tr>
<td>Seven</td>
<td>14%</td>
<td>12%</td>
<td>18%</td>
<td>13%</td>
<td>14%</td>
</tr>
<tr>
<td>Eight</td>
<td>16%</td>
<td>17%</td>
<td>14%</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>Nine</td>
<td>15%</td>
<td>19%</td>
<td>4%</td>
<td>13%</td>
<td>19%</td>
</tr>
<tr>
<td>Ten</td>
<td>14%</td>
<td>19%</td>
<td>2%</td>
<td>16%</td>
<td>12%</td>
</tr>
<tr>
<td>Eleven</td>
<td>7%</td>
<td>8%</td>
<td>4%</td>
<td>8%</td>
<td>5%</td>
</tr>
<tr>
<td>Twelve or more</td>
<td>17%</td>
<td>18%</td>
<td>16%</td>
<td>19%</td>
<td>15%</td>
</tr>
</tbody>
</table>

5. In your opinion, is the size of your board ….

Full Sample

<table>
<thead>
<tr>
<th>Size of Board</th>
<th>Too Big</th>
<th>About Right</th>
<th>Too Small</th>
</tr>
</thead>
<tbody>
<tr>
<td>Six or fewer</td>
<td>8%</td>
<td>87%</td>
<td>6%</td>
</tr>
<tr>
<td>Seven</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eight</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nine</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ten</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eleven</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Twelve or more</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. Does your board have age limits?

Full Sample

<table>
<thead>
<tr>
<th>Age Limits</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Too Big</td>
<td>87%</td>
<td>5%</td>
</tr>
<tr>
<td>About Right</td>
<td>87%</td>
<td>8%</td>
</tr>
<tr>
<td>Too Small</td>
<td>86%</td>
<td>7%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Age Limits</th>
<th>Too Big</th>
<th>About Right</th>
<th>Too Small</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Company</td>
<td>46%</td>
<td>54%</td>
<td>8%</td>
</tr>
<tr>
<td>Private Company</td>
<td>92%</td>
<td>8%</td>
<td>92%</td>
</tr>
<tr>
<td>Male Director</td>
<td>60%</td>
<td>40%</td>
<td>60%</td>
</tr>
<tr>
<td>Female Director</td>
<td>36%</td>
<td>64%</td>
<td>36%</td>
</tr>
</tbody>
</table>
7. Does your board have term limits?

**Full Sample**

- Yes: 26%
- No: 74%

8. Do you believe your board should have term limits?

**Full Sample**

- Yes: 48%
- No: 52%

- By Gender:
  - Male Director: Yes - 33%, No - 67%
  - Female Director: Yes - 67%, No - 33%

- By Company Type:
  - Public Company: Yes - 21%, No - 79%
  - Private Company: Yes - 37%, No - 63%
9. Does your board have a process for removing ineffective directors?

**Full Sample**

- Yes: 65%
- No: 35%

**By Gender and Type of Company**

- **Male Director**
  - Public Company: 69%
  - Private Company: 56%
- **Female Director**
  - Public Company: 52%
  - Private Company: 48%

10. During the time that you have served on the board, has your board removed a director because he or she was ineffective?

**Full Sample**

- Yes: 37%
- No: 63%

**By Gender and Type of Company**

- **Male Director**
  - Public Company: 40%
  - Private Company: 35%
- **Female Director**
  - Public Company: 36%
  - Private Company: 64%

11. Please comment on how this was done — selected answers

Chairman receives input on all directors and we look at the skills needed going forward. We focus on the group that had too many represented (tech/engineering) and one self-selected off the board, knowing how he scored versus other directors.

Chairman had a private discussions with the director, after which the director “decided” not to stand for re-election.

Myself and the chairman of the board met with the director in question and we all agreed together that it was not working. We parted on excellent terms.

**Quietly.**

Poorly. The chairman of the governance committee “delegated” the task to the chairman & CEO.

CEO asked him to step down.

They are re-elected every year. This is a public company but controlled by a family. The voting trust that votes the control block is, in effect, the nominating committee.

The major shareholder moved its nominee off through jawboning.

The M&A process necessitated some directors be removed.

Interviews were conducted with all members. One volunteered off due to other commitments.

Advised the director she no longer had the support of the board.

Chairman suggested the individual might want to resign.

Chairman discussed with the director the lack of “fit” and how behavior was inhibiting board room interaction. Director was asked to not stand for re-election.

Discussion without him present. Then chairman requested he resign.

This individual was deemed overly critical and disruptive. It was agreed that the board evaluation would include an individual peer review, in which each director would be reviewed anonymously by all fellow directors. It was explicitly agreed (in his absence) that this process would be used to pressure him to resign, which he did.

Well no actually — we tried but he fought back, including lawyered up and refused to go. It resulted in two good directors leaving instead and in disgust: one early and one refused to stand for reelection.

**Very carefully.**

We use an outside advisor to help us do peer director evaluations. The board chair and the nominating & governance committee chair provide coaching to individual directors based on this feedback. The nominating & governance committee recommends any actions regarding director removal and we have individual discussions with all board members before finalizing any decisions. The board chair then discusses the decision with the impacted director, suggesting that he/she not stand for reelection.
12. In general, how would you rate the overall effectiveness of the individual directors on your board?

<table>
<thead>
<tr>
<th></th>
<th>Full Sample</th>
<th>Public Company</th>
<th>Private Company</th>
<th>Male Directors</th>
<th>Female Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Extremely effective</td>
<td>25%</td>
<td>31%</td>
<td>8%</td>
<td>30%</td>
<td>14%</td>
</tr>
<tr>
<td>Very effective</td>
<td>48%</td>
<td>48%</td>
<td>52%</td>
<td>48%</td>
<td>45%</td>
</tr>
<tr>
<td>Moderately effective</td>
<td>20%</td>
<td>18%</td>
<td>25%</td>
<td>17%</td>
<td>31%</td>
</tr>
<tr>
<td>Slightly effective</td>
<td>5%</td>
<td>3%</td>
<td>8%</td>
<td>4%</td>
<td>7%</td>
</tr>
<tr>
<td>Not effective at all</td>
<td>2%</td>
<td>1%</td>
<td>2%</td>
<td>0%</td>
<td>2%</td>
</tr>
</tbody>
</table>

13. If you had sole power to do so, how many directors would you remove from the current makeup of your board because they are not effective?

<table>
<thead>
<tr>
<th></th>
<th>Full Sample</th>
<th>Public Company</th>
<th>Private Company</th>
<th>Male Directors</th>
<th>Female Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>1.1</td>
<td>0.9</td>
<td>1.3</td>
<td>0.9</td>
<td>1.4</td>
</tr>
<tr>
<td>Median</td>
<td>1.0</td>
<td>0.0</td>
<td>1.0</td>
<td>0.0</td>
<td>1.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Full Sample</th>
<th>Public Company</th>
<th>Private Company</th>
<th>Male Directors</th>
<th>Female Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zero</td>
<td>46%</td>
<td>51%</td>
<td>32%</td>
<td>51%</td>
<td>33%</td>
</tr>
<tr>
<td>One</td>
<td>28%</td>
<td>25%</td>
<td>34%</td>
<td>26%</td>
<td>33%</td>
</tr>
<tr>
<td>Two</td>
<td>18%</td>
<td>16%</td>
<td>26%</td>
<td>16%</td>
<td>19%</td>
</tr>
<tr>
<td>More than two</td>
<td>8%</td>
<td>8%</td>
<td>4%</td>
<td>7%</td>
<td>14%</td>
</tr>
</tbody>
</table>

14. Do you believe that the directors on your board (in aggregate) have the skills and experiences necessary to oversee the company?

Full Sample

Yes: 89%, No: 11%
15. Which skills and experiences are best represented on your board? (select all that apply)

<table>
<thead>
<tr>
<th></th>
<th>Full Sample</th>
<th>Public Company</th>
<th>Private Company</th>
<th>Male Directors</th>
<th>Female Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit/accounting knowledge</td>
<td>81%</td>
<td>92%</td>
<td>53%</td>
<td>85%</td>
<td>76%</td>
</tr>
<tr>
<td>Cybersecurity knowledge</td>
<td>18%</td>
<td>20%</td>
<td>11%</td>
<td>19%</td>
<td>12%</td>
</tr>
<tr>
<td>Financial skills</td>
<td>85%</td>
<td>91%</td>
<td>68%</td>
<td>87%</td>
<td>83%</td>
</tr>
<tr>
<td>Industry experience</td>
<td>81%</td>
<td>82%</td>
<td>81%</td>
<td>88%</td>
<td>64%</td>
</tr>
<tr>
<td>Legal/regulatory knowledge</td>
<td>54%</td>
<td>58%</td>
<td>43%</td>
<td>58%</td>
<td>52%</td>
</tr>
<tr>
<td>Management experience</td>
<td>82%</td>
<td>87%</td>
<td>70%</td>
<td>88%</td>
<td>71%</td>
</tr>
<tr>
<td>Operational skills</td>
<td>68%</td>
<td>74%</td>
<td>53%</td>
<td>73%</td>
<td>62%</td>
</tr>
<tr>
<td>Strategic skills</td>
<td>79%</td>
<td>84%</td>
<td>64%</td>
<td>83%</td>
<td>69%</td>
</tr>
<tr>
<td>Social media knowledge</td>
<td>16%</td>
<td>18%</td>
<td>13%</td>
<td>17%</td>
<td>12%</td>
</tr>
<tr>
<td>Technical knowledge</td>
<td>47%</td>
<td>47%</td>
<td>49%</td>
<td>51%</td>
<td>40%</td>
</tr>
<tr>
<td>Other, please specify:</td>
<td>14%</td>
<td>12%</td>
<td>19%</td>
<td>12%</td>
<td>21%</td>
</tr>
</tbody>
</table>
16. How would you rate your board along the following dimensions?

**Accurately assesses CEO performance**

**Full Sample**

<table>
<thead>
<tr>
<th>Rating</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very much</td>
<td>66%</td>
</tr>
<tr>
<td>Somewhat</td>
<td>28%</td>
</tr>
<tr>
<td>Not at all</td>
<td>6%</td>
</tr>
</tbody>
</table>

**Male Director**

| Company Type | Rating       | Percentage |
|--------------|--------------|
| Public       | Very much    | 70%        |
| Private      | Very much    | 59%        |
|              | Somewhat     | 24%        |
|              | Not at all   | 6%         |

**Female Director**

| Company Type | Rating       | Percentage |
|--------------|--------------|
| Public       | Very much    | 68%        |
| Private      | Very much    | 59%        |
|              | Somewhat     | 24%        |
|              | Not at all   | 6%         |

**Asks the right questions**

**Full Sample**

<table>
<thead>
<tr>
<th>Rating</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very much</td>
<td>60%</td>
</tr>
<tr>
<td>Somewhat</td>
<td>38%</td>
</tr>
<tr>
<td>Not at all</td>
<td>2%</td>
</tr>
</tbody>
</table>

**Male Director**

| Company Type | Rating       | Percentage |
|--------------|--------------|
| Public       | Very much    | 69%        |
| Private      | Very much    | 51%        |
|              | Somewhat     | 5%         |
|              | Not at all   | 7%         |

**Female Director**

| Company Type | Rating       | Percentage |
|--------------|--------------|
| Public       | Very much    | 63%        |
| Private      | Very much    | 51%        |
|              | Somewhat     | 52%        |
|              | Not at all   | 7%         |

**Accurately assesses the performance of board members**

**Full Sample**

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<th>Rating</th>
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<tr>
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<td>36%</td>
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<tr>
<td>Not at all</td>
<td>12%</td>
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</table>

**Male Director**

| Company Type | Rating       | Percentage |
|--------------|--------------|
| Public       | Very much    | 41%        |
| Private      | Very much    | 56%        |
|              | Somewhat     | 52%        |
|              | Not at all   | 8%         |

**Female Director**

| Company Type | Rating       | Percentage |
|--------------|--------------|
| Public       | Very much    | 41%        |
| Private      | Very much    | 55%        |
|              | Somewhat     | 52%        |
|              | Not at all   | 8%         |

**Challenges management**

**Full Sample**

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<td>Not at all</td>
<td>3%</td>
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</table>

**Male Director**

| Company Type | Rating       | Percentage |
|--------------|--------------|
| Public       | Very much    | 65%        |
| Private      | Very much    | 55%        |
|              | Somewhat     | 45%        |
|              | Not at all   | 4%         |

**Female Director**

| Company Type | Rating       | Percentage |
|--------------|--------------|
| Public       | Very much    | 48%        |
| Private      | Very much    | 55%        |
|              | Somewhat     | 48%        |
|              | Not at all   | 5%         |
Gives direct, personal, and constructive feedback to fellow directors

Full Sample

- Very much: 23%
- Somewhat: 49%
- Not at all: 27%

Has a good relationship with major investors

Full Sample

- Very much: 37%
- Somewhat: 43%
- Not at all: 19%

Gives direct, personal, and constructive feedback to management

Full Sample

- Very much: 57%
- Somewhat: 38%
- Not at all: 5%

Has a high level of trust in management

Full Sample

- Very much: 68%
- Somewhat: 29%
- Not at all: 2%
Has a high level of trust among board members

Full Sample

- Very much: 68%
- Somewhat: 28%
- Not at all: 4%

Has planned for a CEO succession

Full Sample

- Very much: 37%
- Somewhat: 37%
- Not at all: 25%

Has designed an appropriate CEO compensation package

Full Sample

- Very much: 66%
- Somewhat: 28%
- Not at all: 5%

Has planned for board turnover

Full Sample

- Very much: 34%
- Somewhat: 46%
- Not at all: 20%
Invites the active participation of all directors

Full Sample

- Very much: 72%
- Somewhat: 23%
- Not at all: 5%

Male Director: 57%
Female Director: 36%

Public Company: 73%
Private Company: 68%

Invites the active participation of new directors

Full Sample

- Very much: 68%
- Somewhat: 26%
- Not at all: 6%

Male Director: 43%
Female Director: 38%

Public Company: 71%
Private Company: 60%

Is open to new points of view

Full Sample

- Very much: 64%
- Somewhat: 32%
- Not at all: 4%

Male Director: 52%
Female Director: 48%

Public Company: 67%
Private Company: 56%

Leverages the skills of all board members

Full Sample

- Very much: 56%
- Somewhat: 39%
- Not at all: 5%

Male Director: 43%
Female Director: 38%

Public Company: 60%
Private Company: 44%
Onboarding of new directors

Full Sample

- Very much: 40%
- Somewhat: 48%
- Not at all: 13%

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<tr>
<th>Gender</th>
<th>Very much</th>
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<tbody>
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<td>44%</td>
<td>43%</td>
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<tr>
<td>Female Director</td>
<td>44%</td>
<td>43%</td>
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Tolerates dissent

Full Sample

- Very much: 47%
- Somewhat: 45%
- Not at all: 8%

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<th>Gender</th>
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<td>53%</td>
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<tr>
<td>Female Director</td>
<td>50%</td>
<td>38%</td>
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Understands the strategy

Full Sample

- Very much: 62%
- Somewhat: 33%
- Not at all: 5%

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<thead>
<tr>
<th>Gender</th>
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<tr>
<td>Male Director</td>
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<td>Female Director</td>
<td>50%</td>
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</table>
17. To what extent do you believe the following are a problem on your board?

**Board member(s) allow personal or past experience to dominate their perspective**

Full Sample

- **Very much**: 12%
- **Somewhat**: 62%
- **Not at all**: 26%

**Board member(s) are not prepared for meetings**

Full Sample

- **Very much**: 4%
- **Somewhat**: 76%
- **Not at all**: 20%

**Board member(s) are distracted by technology during meetings; take calls during meetings**

Full Sample

- **Very much**: 5%
- **Somewhat**: 66%
- **Not at all**: 29%

**Board member(s) are too quick to come to consensus; do not encourage dissenting views**

Full Sample

- **Very much**: 6%
- **Somewhat**: 53%
- **Not at all**: 36%
Board member(s) derail the conversation by introducing items that are off topic

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<td>5%</td>
<td>34%</td>
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<tr>
<td>Public Company</td>
<td>3%</td>
<td>12%</td>
<td>67%</td>
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<tr>
<td>Private Company</td>
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<td>Male Director</td>
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<td>Female Director</td>
<td>7%</td>
<td>45%</td>
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Board member(s) do not express their point of view when management is present; wait for executive sessions or situations where management is not present

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<th>Full Sample</th>
<th>Male Director</th>
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<td>Female Director</td>
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Board member(s) do not understand the boundary between oversight and actively trying to manage the company; cross the line

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<th>Full Sample</th>
<th>Male Director</th>
<th>Female Director</th>
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<td>Very much</td>
<td>Somewhat</td>
<td>Not at all</td>
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<td>56%</td>
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<tr>
<td>Male Director</td>
<td>6%</td>
<td>17%</td>
<td>24%</td>
</tr>
<tr>
<td>Female Director</td>
<td>6%</td>
<td>17%</td>
<td>24%</td>
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</table>

Very much | Somewhat | Not at all
18. Does your company regularly conduct a formal evaluation of the board?

Full Sample

- **Yes**: 80%
- **No**: 20%

Public Company

- **Yes**: 44%
- **No**: 56%

Private Company

- **Yes**: 82%
- **No**: 18%

Male Director

- **Yes**: 79%
- **No**: 21%

Female Director

- **Yes**: 91%
- **No**: 9%

18.1 [If yes] Which aspects of the board are evaluated? (select all that apply)

Full Sample

- **The Entire Board**: 90%
- **Committees of the Board**: 80%
- **Individual directors**: 55%

Public Company

- **The Entire Board**: 83%
- **Committees of the Board**: 55%

Private Company

- **The Entire Board**: 89%
- **Committees of the Board**: 67%

Male Director

- **The Entire Board**: 90%
- **Committees of the Board**: 80%

Female Director

- **The Entire Board**: 42%

18.2 [If yes] How satisfied are you with the outcome of the board evaluation process?

Full Sample

- **Very satisfied**: 24%
- **Satisfied**: 54%
- **Neither satisfied nor dissatisfied**: 14%
- **Dissatisfied**: 6%
- **Very dissatisfied**: 1%

Public Company

- **Very satisfied**: 11%
- **Satisfied**: 72%
- **Neither satisfied nor dissatisfied**: 11%
- **Dissatisfied**: 6%
- **Very dissatisfied**: 0%

Male Directors

- **Very satisfied**: 27%
- **Satisfied**: 54%
- **Neither satisfied nor dissatisfied**: 13%
- **Dissatisfied**: 4%
- **Very dissatisfied**: 2%

Female Directors

- **Very satisfied**: 12%
- **Satisfied**: 61%
- **Neither satisfied nor dissatisfied**: 15%
- **Dissatisfied**: 12%
- **Very dissatisfied**: 0%
19. Does your board regularly evaluate the skills and capabilities of directors to ensure that committees are chaired and staffed effectively?

Full Sample

- Yes: 74%
- No: 26%

Public Company

- Yes: 79%
- No: 21%

Private Company

- Yes: 80%
- No: 20%

Male Director

- Yes: 57%
- No: 43%

Female Director

- Yes: 25%
- No: 75%

20. Does your board regularly rotate directors to refresh committees?

Full Sample

- Yes: 42%
- No: 58%

Public Company

- Yes: 46%
- No: 54%

Private Company

- Yes: 45%
- No: 55%

Male Director

- Yes: 27%
- No: 73%

Female Director

- Yes: 25%
- No: 75%

21. Does your board have a formal succession process for committee chairs?

Full Sample

- Yes: 23%
- No: 77%

Public Company

- Yes: 29%
- No: 71%

Private Company

- Yes: 25%
- No: 75%

Male Director

- Yes: 15%
- No: 85%

Female Director

- Yes: 15%
- No: 85%
22. To what extent do you agree with the following statement: “Our board has the best composition of skills and experiences to meet the needs of the company”?

**Full Sample**

- Strongly agree: 16%
- Agree: 58%
- Neither agree nor disagree: 17%
- Disagree: 7%
- Strongly Disagree: 1%

**Public Company**

- Strongly agree: 20%
- Agree: 60%
- Neither agree nor disagree: 13%
- Disagree: 6%
- Strongly Disagree: 1%

**Private Company**

- Strongly agree: 5%
- Agree: 53%
- Neither agree nor disagree: 33%
- Disagree: 10%
- Strongly Disagree: 0%

**Male Directors**

- Strongly agree: 19%
- Agree: 62%
- Neither agree nor disagree: 15%
- Disagree: 3%
- Strongly Disagree: 1%

**Female Directors**

- Strongly agree: 10%
- Agree: 48%
- Neither agree nor disagree: 24%
- Disagree: 19%
- Strongly Disagree: 0%

23. To what extent do you agree with the following statement: “Our board is very effective in bringing in new talent to refresh the board’s capabilities, before they become outdated”?

**Full Sample**

- Strongly agree: 12%
- Agree: 45%
- Neither agree nor disagree: 23%
- Disagree: 18%
- Strongly Disagree: 2%

**Public Company**

- Strongly agree: 13%
- Agree: 50%
- Neither agree nor disagree: 18%
- Disagree: 17%
- Strongly Disagree: 2%

**Private Company**

- Strongly agree: 8%
- Agree: 30%
- Neither agree nor disagree: 38%
- Disagree: 23%
- Strongly Disagree: 3%

**Male Directors**

- Strongly agree: 12%
- Agree: 47%
- Neither agree nor disagree: 26%
- Disagree: 13%
- Strongly Disagree: 2%

**Female Directors**

- Strongly agree: 12%
- Agree: 38%
- Neither agree nor disagree: 14%
- Disagree: 33%
- Strongly Disagree: 2%
24. To what extent do you agree with the following statement: “Our board is very effective in dealing with directors who are under-performing or exhibit poor behavior”?

<table>
<thead>
<tr>
<th>Response</th>
<th>Full Sample</th>
<th>Public Company</th>
<th>Private Company</th>
<th>Male Directors</th>
<th>Female Directors</th>
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<td>11%</td>
<td>5%</td>
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<tr>
<td>Agree</td>
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<tr>
<td>Neither agree nor disagree</td>
<td>22%</td>
<td>22%</td>
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<tr>
<td>Disagree</td>
<td>23%</td>
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<td>20%</td>
<td>31%</td>
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<tr>
<td>Strongly Disagree</td>
<td>3%</td>
<td>2%</td>
<td>5%</td>
<td>3%</td>
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25. To what extent do you agree with the following statement: “A subset of directors on our board has an outsized influence on board decisions”?

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<th>Response</th>
<th>Full Sample</th>
<th>Public Company</th>
<th>Private Company</th>
<th>Male Directors</th>
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<tr>
<td>Strongly agree</td>
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<td>22%</td>
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<tr>
<td>Disagree</td>
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<td>31%</td>
<td>14%</td>
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<tr>
<td>Strongly Disagree</td>
<td>7%</td>
<td>9%</td>
<td>0%</td>
<td>8%</td>
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26. Overall, how would you rate the effectiveness of your board?

**Full Sample**

- Not at all effective: 0%
- Slightly effective: 6%
- Moderately effective: 20%
- Very effective: 45%
- Extremely effective: 30%

**Weighted Average**: 4.0

**Public Company**

- Not at all effective: 0%
- Slightly effective: 5%
- Moderately effective: 16%
- Very effective: 42%
- Extremely effective: 37%

**Female Directors**

- Not at all effective: 0%
- Slightly effective: 0%
- Moderately effective: 24%
- Very effective: 48%
- Extremely effective: 19%

**Weighted Average**: 3.8

**Male Directors**

- Not at all effective: 0%
- Slightly effective: 5%
- Moderately effective: 17%
- Very effective: 44%
- Extremely effective: 34%

**Weighted Average**: 4.1
27. Is there anything else that you wish to tell us about your board?

Part of why our board if so effective is that we have a number of long-tenured (more than 10 years) directors in the mix.

Directors on the board seem to possess the qualifications but they have no capacity to discharge the duty of “care and skill” as expected as directors.

The board strongly opposes any form of individual director assessment or feedback which is a lost opportunity for improvement.

The Chairman is essential in setting the tone/expectation and performance of the board as a board entity and as the board engages with management. In the two public companies that I work with both Chairman are outstanding. In future director considerations I would consider evaluation of the chairman as essential as evaluation of the CEO/company I am considering joining. I think the chairman role is a unique and specific role and when done well it makes a considerable difference.

Factions are damaging. One side of the board of two merged companies does not have an open mind but rather wants to run the board and the company. Totally dysfunctional.

Our board is partly made up of representatives of competitors who don’t speak much in front of each other.

We use a competency wheel to identify the skills needed on the board, who has these skills as a generalist and who are expert in these skills. This helps us to identify current gaps and plan for board seat succession. It has been a very effective tool.

The quality of the the CEO is an important factor in board relationship and function.

Works well together with a diversity of skills.

Board does not talk to anyone other than the CEO, who sugarcoats everything and over promises and over blames others. In fact, the board agreed to kick most of management out of board meetings on budget and strategy.

The board is too politically-oriented due to it being a public board. Too many ‘political’ appointees who seek the benefits of membership without properly fulfilling their responsibilities as a director.

All three boards are private, venture backed medical technology companies. As a consequence board membership is largely determined by the amount of investment by the respective venture firms. Thus, there is no turn over, selection, or removal processes that are relevant.

Very collaborative and has a equally high level of skills. All actively participate and our board does not have anyone coasting.

With a global company that is touching every corner of the world, it is important that board members have enough time to commit to the board. Availability of time is therefore important to the company as it takes time to educate new directors and making them efficient in their understanding of company challenges.
Demographic Information

1. Gender

- 74% Male
- 26% Female

2. Age

- 58 Average
- 60 Median

3. What is the revenue of the company that you are most closely affiliated with as a director?

- < $1 billion: 39%
- $1 billion to $10 billion: 40%
- $10 billion to $25 billion: 12%
- > $25 billion: 9%
4. What is the industrial sector of the company that you are most closely affiliated with as a director?

- Business services: 11%
- Chemicals: 2%
- Commercial banking: 4%
- Commodities: 3%
- Communications: 4%
- Computer services: 7%
- Electronics: 6%
- Energy: 4%
- Financial services (other than commercial banking): 10%
- Food and tobacco: 4%
- Healthcare: 11%
- Industrial and transportation equipment: 4%
- Insurance: 3%
- Other manufacturing: 9%
- Other services: 9%
- Retail trade: 2%
- Transportation: 2%
- Utilities: 4%
- Wholesale trade: 1%
Methodology

In June 2016, The Miles Group and the Rock Center for Corporate Governance at Stanford University conducted a survey of 187 directors of public and private companies. Surveys were administered both electronically and in paper form. The companies represented by these directors are primarily those in the S&P 1500 Index as well as private-equity backed, venture-capital backed, and other privately owned firms in North America.

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About Stanford Graduate School of Business, The Miles Group and the Rock Center for Corporate Governance

CORPORATE GOVERNANCE RESEARCH INITIATIVE

The Corporate Governance Research Initiative at Stanford Graduate School of Business focuses on research to advance the intellectual understanding of corporate governance, both domestically and abroad. By collaborating with academics and practitioners from the public and private sectors, we seek to generate insights into critical issues and bridge the gap between theory and practice. Our research covers a broad range of topics that include executive compensation, board governance, CEO succession, and proxy voting.

gsb.stanford.edu/cgri

THE ROCK CENTER FOR CORPORATE GOVERNANCE

The Arthur and Toni Rembe Rock Center for Corporate Governance is a joint initiative of Stanford Law School and Stanford Graduate School of Business. The center was created to advance the understanding and practice of corporate governance in a cross-disciplinary environment where leading academics, business leaders, policy makers, practitioners, and regulators can meet and work together.

www.rockcenter.law.stanford.edu

THE MILES GROUP

The Miles Group develops talent strategies for organizations, teams, and individuals — focusing on high-performance, world-class leadership. We advise top global corporations through CEO succession, executive transitions, board assessment and training, and talent development. Our coaching and advisory services enable leaders to raise the bar on their own performance, as well as create an environment for success throughout the organization.

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Contact Information

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