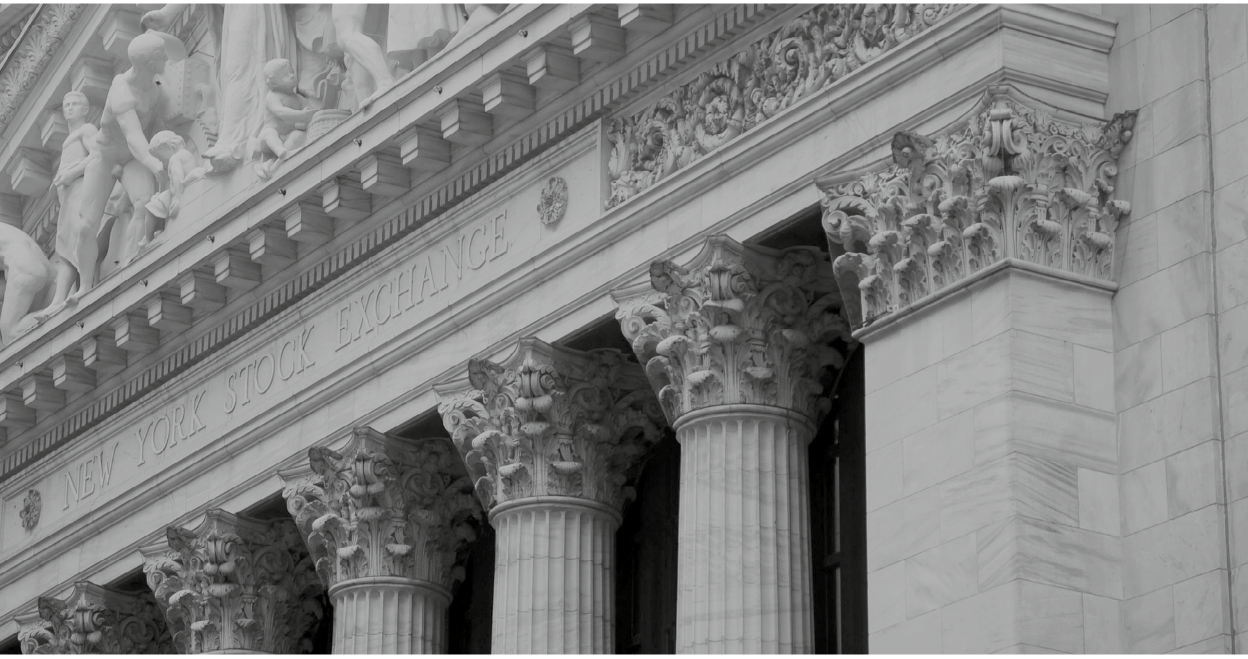
Public Company Series

Board Structure and Composition



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Board refreshment strategies I: setting tenure limits and retirement ages

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In a rapidly evolving business landscape, public companies must prioritize dynamic governance to thrive and navigate new risks. Regular turnover helps ensure that the board has the right mix of capabilities, expertise, perspectives, and styles to effectively support the chief executive officer (CEO) and leadership team and advocate for shareholders.

Top-performing boards anticipate and proactively address planned and unplanned vacancies in the boardroom. They are strategic and deliberate about the process, with the goal of building a multi-year succession plan for the board's makeup. This allows them to bring exceptional talent in not only when they have a reactive refreshment but also in advance to take advantage of a wider time period for relationship development and recruitment.

Boards can apply a wide range of tools and mechanisms to facilitate turnover, such as tenure limits, age caps, voluntary retirement or resignation, requested retirement or resignation, and others. In this chapter, we will focus on two: tenure limits and retirement ages.

- **Tenure limit:** the maximum years of board service.
- **Retirement age:** a maximum age at which directors must step down from the board.

Both tenure limits and retirement ages are typically stipulated in corporate governance guidelines or the charter of the board committee responsible for board composition and director recruitment. While they can be useful tools and help boards evolve, they should *not* be the sole mechanisms for board refreshment.

Board refreshment trends

In our data, board turnover at US companies is consistently low—and may be too low for today's business environment. Consider the following:

Leaders are concerned about the pace of change

In Spencer Stuart's 2024 report, *Measure of Leadership: CEOs and Directors on Navigating Change*, three-fourths of CEOs and board directors report high levels of business uncertainty, and most see the risks accelerating. Approximately one-fourth worry that their organization is "sluggish" in responding to new challenges.

Boards believe in their CEO more than CEOs believe in their board

When it comes to dealing with a changing business environment, the *Measure of Leadership* research also found that 87% of board directors have faith in the readiness of their CEO to respond to these challenges. But the share of CEOs expressing high confidence in directors' ability to help guide them through the issues confronting their organizations is far lower—only 32%.

Board turnover is persistently low

Spencer Stuart's *2024 US Board Index* finds that board turnover has shown little variation over the past 25 years, with rates consistently around 7% or 8% a year. Only 58% of S&P 500 boards appointed a new director in the 2024 proxy year, translating to an overall turnover of less than one (0.83) new director per board.

Many boards say they have directors who should be replaced

In a 2024 Spencer Stuart survey of S&P 500 and S&P MidCap 400 nominating/governance committee chairs, more than one-fourth of respondents (26%) said they have one or more directors who they believe should be replaced. The top reasons for change: a director's skills or expertise is no longer current (62%) or no longer relevant to the board (23%), or the director is underperforming (21%).

Executives are even more likely to want some board directors replaced

A 2023 survey on board effectiveness by PwC and The Conference Board found that only 29% of executives rate their board's performance as excellent. Two-thirds point to long-tenured directors' reluctance to retire as the top reason for lack of board diversity, and 89% said that one or more directors on their board should be replaced.

Stakeholder expectations regarding board director tenure and retirement have evolved significantly

Over the past decade, investor expectations regarding director tenure and retirement have evolved significantly, emphasizing accountability, diversity, and adaptability in corporate governance.

- Institutional investors increasingly advocate for regular board refreshment as essential for fostering agility and innovation. Investors now prioritize director performance over mere tenure, expecting comprehensive evaluations to ensure each member contributes meaningfully to governance and strategy. Transparency and communication have become critical, with investors seeking greater insight into boards' composition strategies and the rationale behind tenure and retirement decisions. They also look for clear succession planning processes to ensure responsiveness to evolving challenges.

- CEOs and executive teams view board refreshment as crucial for maintaining the right mix of expertise to respond to rapid market changes.
- Governance experts like Institutional Shareholder Services (ISS) and Glass Lewis emphasize the importance of having formal policies, such as tenure limits and retirement ages, as well as robust evaluation processes to assess director performance on an ongoing basis. They advocate for a balanced approach that combines these policies with ongoing skills assessments to ensure that the board remains aligned with the organization's strategic goals.

These shifts underscore the importance of proactive turnover and the value of formal mechanisms as supplementary tools to help boards continually refresh with new directors, ensuring that governance aligns with a fast-changing business environment and effectively supports the leadership team and organization.

The benefits of tenure limits and retirement ages

Two mechanisms to facilitate turnover are tenure limits and retirement ages, which can set outer boundaries of board service and help refresh the board, providing several governance benefits.

- They give boards greater visibility about the outer limits for each director's service so boards can be proactive about succession planning.
- They reduce boardroom stagnation by providing mechanisms for rotating directors off the board and creating openings to add new directors with a diverse range of backgrounds and perspectives. This turnover can help ensure that the board has directors with the necessary skills and experience, particularly in rapidly evolving areas like digital technology, artificial intelligence, cybersecurity, regulatory/government, and global experience.
- They reinforce the message that board service is not a lifetime appointment.
- They can provide boards with a means for gracefully exiting ineffective or underperforming board members.

Challenges with tenure limits and mandatory retirement ages

At the same time, both measures have some potential drawbacks.

- Mandatory departures when a director reaches a tenure limit or retirement age can lead to the loss of seasoned board members who may be top contributors with deep institutional knowledge and valuable experience.
- That effect can be compounded if several valuable board members roll off at the same time, or if turnover happens during a period of crisis for the company.
- High board turnover may impact board culture, cohesion, and effectiveness, requiring more energy and deliberate effort to onboard a new group of incoming directors and build up the board's culture.
- Both mechanisms—tenure limits and mandatory retirement ages—can be crutches for boards to avoid more difficult conversations about a problematic, ineffective or less relevant board member. Rather than addressing these issues head on, some boards may opt to simply let a director stay on until forced off by a policy.

Tenure limits among US boards

Overall, the number of US boards adopting tenure limits, while slowly increasing, is low. Among companies on the S&P 500, the number has grown from 3% in 2014 to 9%—only 43 companies—in 2024. And most set high tenure limits: 72% of boards that restrict tenure set limits at 15 years or more. The average tenure for directors on S&P 500 boards is 7.8 years, one of the longest averages among the countries that Spencer Stuart tracks; directors leave S&P 500 boards with an average of 12.2 years of board service.

Hybrid tenure policies are emerging; for example, Microsoft's tenure policy targets an average tenure of 10 years or less for the board's independent directors and Best Buy's corporate governance policy states that non-executive directors should resign 5 years after they stop pursuing their primary career when they were first appointed to the board, effectively acting as a de facto tenure policy.

In countries where tenure limits for public company directors are more common (and often required by securities regulators), they tend to kick in earlier—often 9 to 12 years.

A survey of tenure limits and policies in other markets

Regulators in other countries have a range of policies regarding board tenure and independence.

Belgium: no limit.

Denmark: no limit, but directors lose independence after 12 years.

France: no limit, but directors lose independence after 12 years.

Germany: code recommends setting a maximum tenure, but in practice, no limit.

Hong Kong: no limit, but directors lose independence after 9 years.

Italy: no limit, but directors lose independence after 9 years.

Netherlands: officially 12 years, but in practice, 8 years is becoming the norm.

Norway: no limit.

Singapore: code encourages companies to limit tenure to 9 years, but directors can exceed this, subject to rigorous review.

Spain: no limit, but directors lose independence after 12 years.

Sweden: no limit.

Switzerland: no limit.

UK: directors lose independence after 9 years.

The current state of retirement ages among US boards

According to the "*US Spencer Stuart Board Index*," the number of S&P 500 boards disclosing a mandatory retirement age for directors has declined in the past decade, from 73% in 2014 to 67% in 2024. At the same time, the retirement age of boards with these policies continues to rise.

- The average retirement age is 74, unchanged for the past 4 years, but up from 73, 10 years ago.
- Among boards with age limits, nearly two-thirds (60%) have a mandatory age of 75 or older, compared with 30% in 2014 (*see diagram below*).

One reason for the reduction in mandatory retirement policies could be that boards are instead relying on other mechanisms to encourage turnover, such as director evaluations, skills assessments via board matrices, and voluntary retirements. Another reason could be that boards are eliminating the policies as directors approach the age cap.

Implementing tenure limits and retirement ages

Boards considering adopting tenure limits and/or retirement ages should keep several principles in mind—all commonly used by high-performing boards.

Determine the right benchmarks for your board

All organizations have their own unique needs and circumstances. The board—typically through the nominating/governance committee—should give careful thought to what the right metrics should be regarding tenure limits and/or retirement ages.

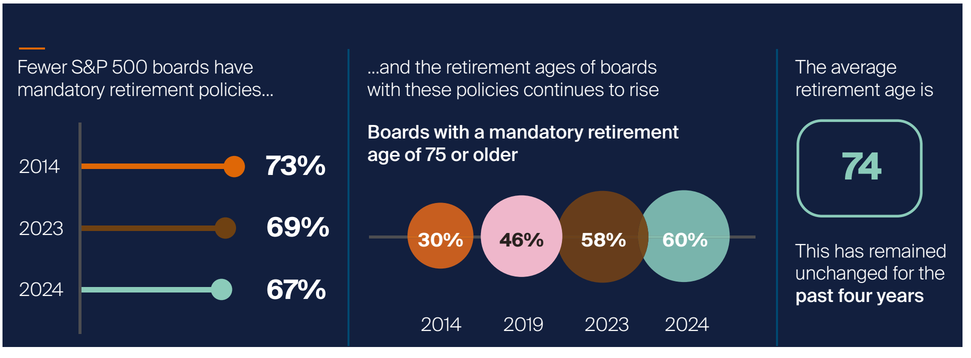
Boards should think creatively about tenure limits. Tenure policies relating to director independence could be considered. Another approach is to require directors to submit their resignation from the board once they have been retired from their primary corporate job for a certain period of time (such as the Best Buy example above).

Look ahead to proactively map turnover

When implementing tenure limits, boards should understand the impact of the new policies and plan accordingly to think ahead on boardroom succession planning.

Adopt a no-exceptions policy

Formal turnover policies should not be waived. Waivers can set expectations in the boardroom that the policy will routinely be waived for all directors, making it difficult going forward to roll off directors and



refresh the board. Investors may view a waiver of the retirement age as a signal that the board is reluctant to refresh or weak at its own succession planning.

Some investors have policies opposing waivers of retirement policies. For example, Glass Lewis's 2024 proxy voting guidelines state:

If a board adopts term/age limits, it should follow through and not waive such limits. In cases where the board waives its term/age limits for two or more consecutive years, Glass Lewis will generally recommend that shareholders vote against the nominating and/or governance committee chair, unless a compelling rationale is provided for why the board is proposing to waive this rule, such as consummation of a corporate transaction.

Engage relevant parties early and regularly

Involve current directors, executives, and major shareholders in discussions about the rationale for tenure limits and retirement ages. Solicit their input and feedback to address concerns and build consensus. Keep relevant parties informed about the implementation process, outcomes, and any adjustments to the policies over time.

Clearly communicate rationale and benefits

Communicate the reasoning behind these policies clearly and transparently. Emphasize the benefits, such as enhancing diversity, bringing in fresh perspectives, increasing accountability, and aligning governance with the evolving business environment.

Document policies

Develop clear, written policies regarding tenure limits and retirement ages. Include these in corporate governance guidelines and ensure that they are easily accessible to all relevant parties, including shareholders, regulators, auditors, etc. Having documented policies can prevent misunderstandings and set clear expectations.

Ensure that formal turnover policies are a supplement to ongoing board refreshment work

Most importantly, boards implementing tenure limits and/or mandatory retirement ages should not think that their work is done. They need to establish a culture and mindset of continuous improvement and refreshment. This entails cultivating a dynamic board culture in which all directors understand that their service is contingent on boardroom needs and is not a guaranteed position. Boards also need to proactively identify and address skills gaps among directors, conduct objective evaluations, and be willing to make difficult decisions such as asking underperforming directors to step down if necessary.

Conclusion

Effective board oversight requires continuously refreshing the board's composition. Tenure limits and mandatory retirement ages can be useful in ensuring board turnover and adding new voices and fresh perspectives, particularly as the pace of change in business continues to accelerate. Critically, these formal tools should be part of a broader set of practices that the board uses to foster turnover, including objective and robust director evaluations, skills matrices, and ongoing discussions with the executive team. We will discuss board evaluations in the next chapter.

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Board refreshment strategies II: board, committee, and director assessments

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Effective governance involves a range of considerations, including strong leadership, effective collaboration and communication with the chief executive officer (CEO) and executive team, and the right mix of expertise and perspective. These attributes must also be appropriate to the context of the current strategic landscape, operating reality, and future outlook. However, boards cannot know how well they embody these attributes without a structured mechanism for measuring performance—both collectively and for individual directors.

For that reason, high-performing boards take a thoughtful approach to the board evaluation process, establishing mechanisms to identify strengths, weaknesses, and areas of potential growth not abstractly, but specifically to support and govern the organization's evolving needs. Those mechanisms change over time, but the core objective remains: to provide a clear assessment of performance, underscore areas for improvement, and foster a culture of continuous development that supports overall board refreshment to meet the evolving needs of the organization and its stakeholders.

Types of board assessments

To effectively evaluate board performance, three assessment types are essential:

- Overall or full board evaluation
- Committee evaluation
- Individual director evaluation

Overall/full board evaluation

This type of assessment offers a comprehensive overview of the board's performance. It focuses on governance processes, decision making, board dynamics, and alignment with the organization's long-term strategy and operational reality.

The nominating/governance committee generally takes the lead in shaping and overseeing the full board evaluation process. Key areas of the full board evaluation include:

Governance and strategic oversight

- Is the board aligned with management on the organization's mission, vision, and strategy?
- Is the board adequately addressing key risks, opportunities, and compliance requirements?
- Does the board oversee the development and execution of strategies of the business, rather than simply looking at governance or regulatory matters?
- Is the board ensuring that the company creates sustainable value and maintains or increases competitiveness over time?

Board composition and structure

- Does the board have the right mix of skills, expertise, styles, and diversity?
- Are committees functioning effectively with up-to-date charters and responsibilities?

Leadership and meeting effectiveness

- Are the independent board leaders and committee chairs demonstrating effective leadership?
- Are meetings well-structured, efficient, and focused on strategic priorities?
- Are the requirements of the board taking an appropriate amount of CEO and management time to prepare and respond to?

Board dynamics and relationships

- Is there a boardroom culture of trust, collaboration, and constructive challenge?
- Are relationships between directors and management productive, constructive, and transparent?

Accountability with relevant parties

- Does the board effectively communicate with and gather insight from shareholders, employees, creditors, vendors, auditors, regulators, customers, communities, and government agencies?

Continuous learning and development

- Are directors staying current on industry trends, governance best practices, and emerging risks?
- Do directors have a clear and unbiased fact base around not only company performance but the actions that are leading to that performance?

The overall assessment provides a holistic view of board performance, identifying collective strengths and weaknesses, and enhancing overall governance practices. However, depending on who conducts the evaluation, it may yield overly general results. It also does not include an assessment of the performance of individual committees or directors.

Committee assessments

Committee assessments are a key component of board evaluations, particularly for boards listed on the New York Stock Exchange (NYSE), which also requires boards to assess the effectiveness of their committees.

These evaluations focus on the performance of specific board committees (e.g. audit, compensation, governance). They typically involve evaluating effectiveness in fulfilling committee mandates, assessing committee member participation and engagement, and evaluating the quality of discussions and decision making. Committee evaluations are typically conducted annually by the committee chair, nominating/governance committee, or an external consultant in conjunction with the overall board assessment. Ideally discussions should include the view of the committee effectiveness by those impacted by the committee but not sitting on the committee. Key areas of committee evaluation include:

Committee structure and composition

- Are committee members appropriately qualified?
- Is there appropriate understanding of committee succession risks?
- Is the size of the committee optimal for effective discussion?
- Are new members oriented properly about their roles and responsibilities?

Mandate and responsibilities

- Are the committee's roles and responsibilities clearly defined?
- How well does the committee fulfill its mandate?

Meeting effectiveness

- Is the committee focused on the most critical issues facing the organization?
- Is the committee spending too much time on non-essential matters?

Feedback and collaboration

- Does the committee communicate effectively with the full board?
- Is the committee collaborating effectively with other committees and the full board? Management?

Benefits of conducting committee evaluations include providing targeted insights into specific committee performance, identifying opportunities for improvements in governance practices, and encouraging accountability within committees. However, boards should be aware of the potential for bias if assessments are conducted solely by committee members and avoid evaluations narrowly focused on formalities rather than on fostering genuine improvements.

Individual director assessments

Individual assessments provide feedback to each director, focusing on their strengths, relevant skill sets, and opportunities for improvement. These assessments are typically conducted by the independent board leader (chair or lead director), nominating/governance committee chair, or an external party. Many boards adopt a staggered schedule (e.g. every two or three years) for individual evaluations. Key areas of individual director evaluations include:

- Significant contributions
  - What are the director's most impactful contributions to the board's overall effectiveness?
- Enhancing effectiveness
  - What could the director do to be more effective in the boardroom?
- Additional insights
  - What further feedback or suggestions can be offered for this director?

Individual director assessments have many potential benefits, including promoting individual accountability, identifying personal development needs, and enhancing overall board effectiveness through individual contributions. Neither major US stock exchange mandates individual assessments.

Boards are more likely to assess individual director contributions than in the past; 47% of S&P 500 boards disclosed that they have some form of individual director evaluations in 2024, an increase from 34% a decade ago. However, this figure likely underrepresents the true number of boards engaging in individual assessments. Our own research suggests they are more broadly practiced:

- Sixty-two percent of respondents to a 2024 Spencer Stuart director survey said their board conducts individual assessments; of that subset, 83% do so yearly.
- More than half of boards conducting individual assessments (54%) use both peer feedback and self-evaluations. Thirty percent use peer feedback only.
- Seventy-one percent said that individual director assessments improve overall board effectiveness.
- Sixty-three percent said that these assessments help directors grow and perform better.

In addition to individual director evaluations led by board leaders or an external party, boards can apply two other measures to evaluate directors.

Self-evaluations. Self-evaluations allow board members to reflect on their performance and contributions autonomously. Directors self-identify their strengths and areas for improvement.

Self-evaluations can help increase director self-awareness, spur personal growth, and identify individual goals related to board service. At the same time, when directors have limited self-awareness of how their contributions are viewed by others, it may lead to inflated perceptions or inability to identify weaknesses.

Peer evaluations. In peer evaluations, board members assess one another's performance. These can be conducted separately or combined with self-evaluations, depending on board preferences. Peer evaluations are typically conducted periodically led by the independent board leader (chair or lead director), nominating/governance chair, or independent third party. They should be conducted separately from renomination decisions to minimize potential stress about peer reviews.

Peer evaluations encourage open dialogue and collaboration among directors, and they can highlight interpersonal dynamics within the board. Potential downsides include a risk of bias or favoritism, and the possibility of conflicts or discomfort if feedback is too critical.

The three assessment types—overall board, committee, and individual evaluations—complement one another to provide a comprehensive view of board performance.

Obstacles to a meaningful board assessment

The 2024 US *Spencer Stuart Board Index* found that 99% of boards conduct some sort of performance evaluation. While companies listed on the NYSE are required to perform an annual evaluation of the performance of their board and its committees, companies listed on other US exchanges are not required to do so; nonetheless, annual board evaluations have become widely recognized as best practice.

However, some evaluation processes are more comprehensive and effective than others. Less effective processes often exhibit the following shortcomings:

- Rote, check-the-box exercises that fail to lead to real scrutiny or insight.
- Over-confident boards who grade themselves too highly.
- Resistant directors who dismiss the value of evaluations.
- Reluctant directors hesitant to provide candid feedback about the performance of individual directors, or of the board as a whole.

In those situations, boards can have an incorrect—potentially inflated—sense of their performance and ability. They may also have critical blind spots in important aspects of governance, and they also may not know where to prioritize improvements.

In our experience, more effective processes include peer evaluations, regularly updated skills matrices, and periodic use of third parties.

Methods for conducting assessments

While the purpose of each evaluation type differs, the methods used to conduct them often overlap. Typically, boards will use one or all three of the following:

Method		Pros	Cons
Surveys or questionnaires	• Anonymous feedback is collected from all directors • Includes quantitative ratings and open-ended questions for qualitative input	Cost-effective and less time intensive	• Limited ability to probe deeper insights • Often result in a collection of high scores with little explanation or rationale for them
Interviews	• Facilitated by the board chair, lead director, or an external consultant • Can provide nuanced feedback	Allows for deeper insights and exploration of sensitive issues	• Time-consuming and requires skilled facilitation • Yields unstructured, qualitative data that requires thoughtful synthesis

Who conducts assessments

The choice of who conducts evaluations plays a critical role in shaping the evaluation's effectiveness, the quality of feedback, and the overall governance culture. Boards must carefully consider the qualifications, perspectives, and potential biases of those involved in the process to ensure that all evaluations lead to meaningful insights and improvements. Typically, board evaluations are conducted by the following roles:

General counsel/corporate secretary

The general counsel or corporate secretary plays a pivotal role in guiding the board evaluation process, leveraging their expertise in legal and regulatory matters. Their familiarity with governance requirements and best practices ensures that evaluations comply with legal standards, and their objective perspective can lead to unbiased assessments. However, there are potential conflicts of interest to consider, given their role in management. Additionally, they may lack the comprehensive skills needed for nuanced evaluations. Therefore, it is essential for the board to ensure that the general counsel or corporate secretary has the necessary resources and skills to conduct thorough assessments.

Board chair/lead director

The board chair typically possesses a deep understanding of board dynamics and a perspective on individual and collective performance. Their insider perspective can be valuable to facilitating open discussions around performance. Nevertheless, there is a risk of perceived bias if the chair is responsible for evaluating peers, which can affect the candor of feedback. To address this risk, the board should implement clear protocols that foster transparency and fairness during evaluations led by the chair.

Nominating/governance committee chair

Their expertise in governance matters allows for structured evaluation processes, which can yield meaningful insights. However, this role may lack insight into all aspects of board performance, potentially limiting the comprehensiveness of the assessment. It is crucial for the nominating/governance committee chair to receive support from the board in facilitating effective evaluations.

Third-party adviser

Engaging a third-party consultant can introduce specialized expertise and a comparative perspective to the evaluation. External consultants typically provide objective assessments based on industry standards and best practices while offering benchmarking insights. Despite these advantages, the costs associated with hiring a consultant can be prohibitive, particularly for smaller organizations. Additionally, directors may not be comfortable revealing sensitive concerns to an outsider. For this reason, selecting a consultant with a proven track record and capabilities tailored to the organization's specific context is of utmost importance.

Best practices for board assessments—before, during, and after the process

To ensure that the assessment process leads to meaningful outcomes, boards should follow established best practices before, during, and after the evaluation.

Before the assessment begins

Assign clear accountability

The board evaluation process is typically handled by the nominating/governance committee, with the committee chair overseeing all phases of the process, or by the independent board leader. Regardless of who leads the effort, that person should have clear accountability for overseeing the design and execution of the evaluation, including sharing results with the board, overseeing development of a plan to address areas for improvement, and monitoring progress on the action plan.

Align on process and goals

Before the evaluation process begins, directors should have the opportunity to discuss the approach, so they can provide input, voice concerns, and work toward setting clear parameters about the assessment's scope and objectives, how it will be conducted and reported back, and the need to openly share and receive feedback. The goal is to build consensus on the process and ensure directors understand its value and fully commit to supporting it.

Leverage technology

Boards can leverage various technological tools and platforms to streamline the evaluation process, improving efficiency, data collection, and overall assessment quality. Survey applications can facilitate the design and distribution of questionnaires, while data analytics software can help analyze responses effectively. Platforms that enable anonymous feedback can enhance the candidness of evaluations.

Consider periodically using a third-party facilitator

Board, committee, and peer evaluations require directors to be open about their views of their own abilities and those of their peers. The process can make some board members uneasy. A skilled outside facilitator can manage this process, offer a "safe", confidential place for directors to provide candid feedback, and ensure that feedback gets delivered in a way that is productive. They can observe live meetings to get a firsthand view of how well directors communicate and collaborate.

Perhaps most important, outside facilitators can manage sensitivities and remove some of the emotion from the process, helping the board stay focused on the big-picture objective of strengthening individual and board performance.

During the assessment process

Interview directors individually

Many board evaluations are limited to director questionnaires, which can be useful, but results can be difficult to interpret. Even those that ask for qualitative input—like an open form for additional comments—may not generate deep insights.

Instead, the board evaluation process should include interviews with each director. In this process, board members are interviewed individually on a confidential basis and asked for their assessment of key topics that contribute to board, committee, and individual director effectiveness. Questions should be provided in advance so directors can reflect before the interview and interviews should include time for open-ended discussion. They should be conducted by a person with direct, deep experience with boardroom issues and CEO/board dynamics.

Gather input from the CEO and other senior members of the executive team

CEOs and members of the senior management team who regularly interface with the board, such as the general counsel, president, chief financial officer, and chief human resources officer, often have thoughtful feedback about the board's strengths and potential areas of growth. This information can be sensitive, so it should be limited to the person directly responsible for overseeing the evaluation.

Set a tone of constructive, forthright discussion

The board chair (and, when applicable, the person overseeing the evaluation process) should set a tone for the overall process that values candid, forthright feedback. The process works best when there is a collegial board culture, grounded in professionalism, and encouraging openness to giving—and receiving—regular feedback. Board leadership is key to creating and maintaining this culture.

After the assessment is complete

Follow up on the findings

The insights gained from a board evaluation are only valuable if the board actively addresses them. The results should be synthesized to key findings, presented to the board through an open discussion, and turned into an action plan with a set of clear priorities to address any issues. To ensure that these findings are not tabled or forgotten, boards should regularly evaluate progress toward the key takeaways.

Communicate results with relevant parties

Boards should develop a thoughtful approach to communicating evaluation results, insights, and action plans with shareholders and management. This communication should include a robust disclosure in the proxy statement outlining the evaluation process and high-level takeaways. To foster engagement and trust, it is beneficial for boards to provide clarity on the evaluation mechanics and their commitments to improvement. Some boards may choose to disclose whether they engaged an external adviser to conduct the evaluation and briefly outline the adviser's role. This transparency helps shareholders, regulators, customers, etc., understand the evaluation process without delving into the specifics of the findings.

Provide ongoing feedback

Individual directors should get feedback on their performance. The goal should not be to grade directors, but to provide constructive input as required.

In extreme cases—such as a director who is clearly underperforming—the independent board leader should be prepared to have difficult conversations, either to reinforce standards and expectations for improvement, or to suggest that the person step down from the board (enforced through a vote if necessary).

Provide ongoing support

A board is a complex team and like all teams sometimes further performance support is helpful or necessary. Because most boards operate as a group of peers versus a traditional hierarchy, sometimes clear interventions to improve performance are critical. While some boards tackle these tasks themselves, others turn to external experts to help facilitate and provoke a higher level of trust, candid problem solving, and conflict resolution.

Review and adapt evaluation processes over time

Just as board evaluations should happen annually, the nominating/governance committee should review the evaluation process itself each year. Leading practices evolve, and boards—and board dynamics—change. As a result, boards should review the evaluation process annually to modify and adjust to best suit the board needs.

Boards should review the assessment structure, questions, and overall effectiveness each year, adapting the approach as needed to ensure continuous relevancy and alignment with governance goals. This involves reflecting on whether assessments yield actionable insights and facilitate meaningful changes in governance practices. Boards can also take a fresh look at their assessment approach and evolve the format or ask different questions to drive a better outcome. They may even find it valuable to dive deeper into a few particular areas where they believe there is potential for improvement.

Conclusion

Strengthening the board is essential for companies to support business strategy and navigate the challenges of an uncertain and fast-changing world. Regular and thorough assessments of the overall board, committees, and individual directors help boards enhance their existing strengths, remove obstacles to progress, and stay ahead of evolving standards of corporate governance. The process requires careful planning and a willingness to ask tough questions and deliver candid feedback. But when implemented correctly, it can yield invaluable dividends in helping boards improve their performance.

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Previously, Julie was the executive director at Catalyst, where she focused on identifying qualified women for corporate boards. She began her career at McKinsey & Company. Julie holds an M.B.A. in corporate finance from the Wharton School at the University of Pennsylvania. She serves on the boards of The Jackson Laboratory, CityMeals, and The Palm Beach Food Bank and is a commissioner for the Women's Refugee Commission.