



**THE FUTURE  
OF THE AMERICAN  
BOARD**

# **NOMINATING & GOVERNANCE COMMITTEE BLUEPRINT**

In Partnership With



**KORN FERRY**



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# About the Future of the American Board

**What Is the Future of the American Board Initiative?** NACD convened the Future of the American Board Commission—a diverse, influential group of seasoned board leaders from top private and public companies and notable governance practitioners from across the investor, regulatory, and academic communities—to help guide boards through an increasingly turbulent and unpredictable future.

The Commission's perspectives and experiences shaped a [comprehensive framework](#) for board governance centered on 10 Key Principles that boards can use and adapt to ensure they are fit for the future. This framework, released in the fall of 2022, is accompanied by a set of practical blueprints, focused on the shifting roles of the key board committees, issued in the spring of 2023. Partners leading these working groups include KPMG (audit committee), Marsh McLennan (risk committee), Pearl Meyer (compensation committee), and Korn Ferry (nominating and governance committee).

**What are the main takeaways?** The report's 10 Key Principles provide guidance for boards that is rooted in progress American boards have made since NACD issued the first set of Key Agreed Principles in the wake of the global financial crisis of 2008. These updated principles are reflective of intensifying pressures and expectations that will affect companies and their governance in the coming years. Most important, in a world that seems less governable, the quality of board governance will be increasingly vital to the sustainability of our enterprises and trust in our market economy.

**How to use the report and the committee blueprints:** What is different about the report is that the Commission developed high-level principles with key questions that are meant to spur board discussion on critical improvements. The Commission understood that prescriptive, one-size-fits-all advice wouldn't be effective for individual boards and companies. The Commission expects that as boards confront these questions, they will come to different conclusions based on their level of maturity, the strategies they are pursuing, and the pressures they are facing. The four blueprints help translate the Commission's principles into practical guidance at the board-committee level.



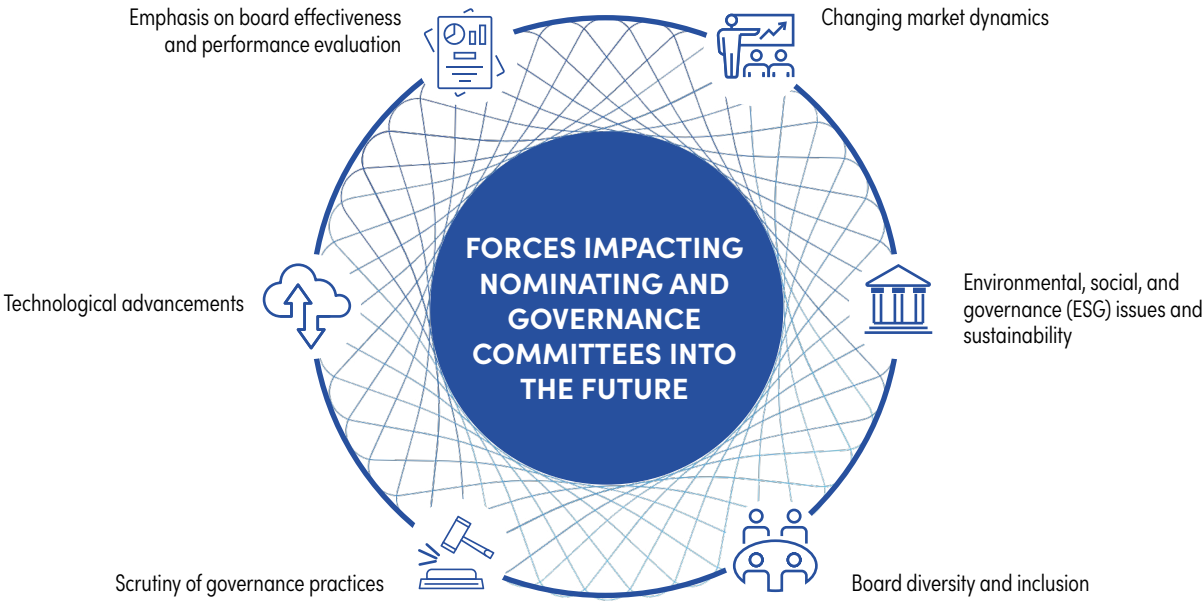
# NOMINATING & GOVERNANCE COMMITTEE BLUEPRINT

## Introduction

Over the past three years, whirlwind changes—including the global pandemic, social justice movements, geopolitical conflicts, economic uncertainty, and climate-driven disasters—have transformed board workloads and agendas. No board has been left untouched, and the nominating and governance committee has been affected by the following forces:

- ▶ **Changing market dynamics.** The ambiguous state of the economy in the United States and elsewhere is impacting companies' strategic priorities and driving an accelerated evaluation by the nominating and governance committee of the skills and experiences required by the board to guide and challenge management. Assumptions about who is adding value to the board have been challenged, with older directors sometimes having the only experience dealing with a period of persistent high inflation. Continually assessing the board's experience and skill gaps in light of changing economic conditions and corporate strategy will be a crucial ongoing function of the committee moving forward.

- ▶ **Environmental, social, and governance (ESG) issues and sustainability.** The rise of ESG has led to increased scrutiny of corporate sustainability and responsible business practices and board oversight of these areas. Stakeholders and regulators are demanding greater transparency in ESG and sustainability-related decision-making processes. In many organizations, board oversight of ESG matters falls to the nominating and governance committee, and the committee will need to appropriately adjudicate responsibilities for oversight of ESG matters that can sometimes span multiple committees.
- ▶ **Board diversity and inclusion.** Though diversity, equity, and inclusion (DE&I) is sometimes considered under ESG, this blueprint will focus on it separately to address DE&I through the lens of board composition. Investors, employees, consumers, and regulators expect boards to reflect the diverse perspectives and experiences of their stakeholders. Embracing DE&I has elevated the role of the nominating and governance committee to seek out candidates who bring high-level talent, experience, and expertise from their respective professional capacities and backgrounds, and are also able to provide additional perspective from underrepresented or diverse groups. The committee will play a critical role in shaping a more diverse board with greater breadth and depth of experiences and perspectives, and in ensuring an inclusive and interactive environment for all board members.



- ▶ **Scrutiny of governance practices.** As corporate scandals and failures continue to make headlines, there is a growing demand for boards to exercise rigorous oversight of management and enforce accountability. The nominating and governance committee requires a well-considered approach for ensuring the board maintains an open and candid culture and is composed of qualified, ethical directors who are capable of challenging and guiding management as needed and as the business environment continues to evolve and change.
- ▶ **Technological advancements.** As businesses rely more on technology to drive growth and innovation, boards are expected to have a deeper understanding of the risks and opportunities presented by these advancements. This has led, and will continue to drive, a greater emphasis on the nominating and governance committee's recruitment of directors with technology expertise and digital transformation experience to ensure that the board has the processes and procedures in place to effectively oversee cyber and technology-related risks, including artificial intelligence (AI).
- ▶ **Emphasis on board effectiveness and performance evaluation.** Investors and other stakeholders are interested in understanding how boards operate and whether they are fulfilling their oversight responsibilities effectively. This investor and broader stakeholder scrutiny of board performance is likely to continue into the future. As a result, the nominating and governance committee must focus on evaluating the directors' skills and expertise, identifying gaps in the board's capabilities, and recruiting new directors who can fill these gaps.

Board performance, composition, and culture can be either a corporate asset or a liability, depending on how effectively the board fulfills its responsibilities and supports the company's long-term success.

A weak board can be a liability, potentially leading to poor decision-making, lack of accountability, and reputational harm. Boards composed of directors that lack diverse experience, perspectives, and skills may not be able to provide meaningful oversight and manage evolving risks.

However, an effective board can provide valuable strategic guidance, oversight, and risk management expertise, helping to drive growth, enhance stakeholder value, and mitigate risks. Boards that include diverse perspectives and expertise can also foster innovation and better decision-making. This blueprint details how nominating and governance committees can leverage these qualities to turn the committee and the board itself into a strategic asset for the company.

# Process of the Working Group

**K**orn Ferry and NACD assembled and convened a Working Group that consisted of 12 nominating and governance committee chairs and members from leading companies. This diverse group met to work through the implications of NACD's *The Future of the American Board* report for the nominating and governance committee.

The Working Group's goals were to consider the shifting objectives of the nominating and governance committee charter and what has changed in the committee; potential new agenda items and workflows; recommended skills to consider for the committee membership; management reporting on new issues; and, for public companies, shareholder communications on new issues.



The Working Group explored five themes derived from the 10 Key Principles outlined in *The Future of the American Board* report:

1. Setting board culture and expectations for directors
2. Aligning board composition with corporate strategy
3. Fostering continuous improvement in board performance
4. Improving oversight of cross-board matters that often fall to the nominating and governance committee
5. Overseeing board involvement with shareholders and other key stakeholders

What follows is a blueprint to guide the work of nominating and governance committees as they face new and changing demands.

# Setting Board Culture and Expectations for Directors



The nominating and governance committee plays a critical role in establishing and maintaining a diverse and inclusive board. The committee should help define and ensure an inclusive board culture, set expectations for directors, design rigorous renomination processes, and ensure that board leadership (the board chair or lead independent director (LID) and committee chairs) reinforces the agreed-upon culture, expectations, and processes.

## SETTING DIRECTOR EXPECTATIONS

The nominating and governance committee can help create an inclusive board culture by establishing clear expectations for the behavior and responsibilities of the directors. This can include a written statement that sets out the standards of behavior expected of all directors. (An example is included in [Appendix A](#).) This helps to ensure that all directors hold each other to the same high standards, which can promote accountability and encourage positive behavior. The committee may propose the expectations, but all the directors will need to discuss them and agree to them.

At one company, the board chair discusses the expectations with committee chairs. The board then uses those expectations to assess directors during the renomination process and to structure development to improve their performance. Each director can also use the expectations to chart their own development path.

The chair or LID should also give feedback to directors after each board meeting and be prepared to receive it, too. Since the behavior of the chair or LID contributes to—and some would argue determines—the board culture, they should also receive feedback. In some boards, the chair of the nominating and governance committee is given the responsibility to provide that feedback to the board chair or LID.

## DEFINING AND ENSURING AN INCLUSIVE BOARD CULTURE

An inclusive culture creates the foundation of a positive working environment where all directors feel valued and respected. It encourages open communication, fosters collaboration, and promotes a sense of belonging for all members. This, in turn, can lead to better decision-making, greater accountability, and improved overall performance.



The committee can build in the statement of expectations specific standards that address inclusivity and the desired culture that can flex and adapt as new directors join the board. The statement of expectations developed by the board will need to evolve as the board evolves. One Working Group member advised that when a new director is being considered for the board, the committee should explore “culture add,” not “culture fit.” Adding someone to the team changes its dynamics, and boards need to retain what makes their team work well while incorporating a new director’s ideas, perspective, and expertise.

The nominating and governance committee can also help create an inclusive board culture by establishing clear criteria for selecting new directors. This can include a focus on finding individuals with a diverse range of backgrounds, experiences, and skills as well as a commitment to inclusivity. In setting criteria, the committee should also consider the current composition of the board and ensure that any new director will complement and enhance the existing set of competencies and experiences.

The nominating and governance committee can also help create an inclusive, productive, and high-performing board culture by fostering communication among the directors. One opportunity to build rapport among the group is to use off-site events and board dinners, or virtual happy hours and digital water cooler conversations, where the directors get to know and understand each other in a social setting. An inclusive culture depends on all directors feeling comfortable sharing their thoughts and ideas, so it is essential that the committee role model a welcoming, supportive environment.

## DESIGNING RIGOROUS RENOMINATION PRACTICES

Another important role of the nominating and governance committee is monitoring the performance of current directors and assessing whether they should be renominated for an additional term. This involves regularly reviewing directors’ skills, experiences, and contributions to the board. If any director is not meeting expectations, they may need guidance and coaching from board leaders. If the failure to meet expectations continues, the committee may have to recommend that the director step down at the next annual meeting.

Annual individual director assessments play a critical role in the renomination process. Research<sup>1</sup> from Korn Ferry shows that approximately 60 percent of boards in the S&P 500 evaluate individual directors, with the majority (53%) using interviews to collect the data; others rely on surveys or third parties to collect data (32%). Interviews tend to get more candid responses than written surveys. Given the stakes, boards may prefer to use an independent third party to administer director evaluations.

After compiling this information, the board chair or LID provides feedback to the evaluated directors. Some boards measure director performance against a set of expectations, such as attendance, engagement, contribution, and a balance of collaboration and independence.

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<sup>1</sup> See Korn Ferry’s report, *Annual State of Board Evaluation in the U.S. 2022* (Korn Ferry, 2022), p. 2.

## ENSURING BOARD LEADERSHIP SUPPORTS THE CULTURE AND DIRECTOR EXPECTATIONS

To make the expectations real, the committee will need to partner with board leadership, particularly the chair or LID.

The independent board chair/LID is the primary culture carrier for the board, supported by committee chairs. As board leaders are responsible for ensuring all voices are heard in the discussion, they need to be sensitive to dominating personalities and behaviors, such as interrupting, dismissing others' points of view or experiences, and co-opting others' ideas. To get the most value from diversity efforts, the chair or LID must ensure that all voices are heard.

When choosing a new board chair or LID, the nominating and governance committee should consider soft skills, such as active listening and ability to give and receive feedback. The nominating and governance committee chair can also help the chair by providing feedback to him or her.

## Aligning Board Composition with Corporate Strategy



The nominating and governance committee oversees the selection of the board of directors. A key responsibility of the committee is ensuring that the board composition is aligned with the long-term corporate strategy. To do this, the committee must create a long-term succession plan, enable regular refreshment of the board, and plan for board leadership succession.

### CREATING A LONG-TERM BOARD SUCCESSION PLAN

An initial step in aligning board composition with corporate strategy is conducting a skills inventory. An inventory identifies the skills, expertise, and experience necessary to provide oversight of the corporate strategy as it evolves over a three-to-five-year time frame.

Once the committee has developed its skills inventory with clear definitions (see [Appendix C](#) for an example), it should build out a board matrix by rigorously assessing existing director skills, expertise, and experiences against those in the inventory. (See [Appendix D](#) for an example.)

This assessment identifies gaps in the board's composition that need to be filled to successfully guide and challenge management on the strategy. The plan should also consider the specific needs of each committee and the longer-term development of potential future board leaders.

Then, based on the skills and experience required to oversee the corporate strategy, the committee should develop profiles of ideal board members to recruit. These profiles include the specific skills, experiences, and attributes needed to help the company achieve its strategic goals. Boards should also include the agreed expectations, especially if they relate to a director's availability to participate fully in the work of the board.

Finally, the committee can build a list of potential candidates. The board and/or management could start meeting with potential candidates well in advance of need. One Working Group member recommended starting at least a year or two in advance to let incoming directors learn about the board and its culture. The LID and chair of the nominating and governance committee should maintain an ongoing dialogue with prospective board members, which can improve engagement and prevent surprises on both sides down the road. In some cases, it may make sense to temporarily increase the size of the board to accommodate promising new directors with hard-to-find attributes.

## WIDENING THE SEARCH

In selecting candidates, the committee should, as noted above, actively seek out diverse candidates who have the skills and experience required. This includes candidates from underrepresented groups who can bring unique perspectives and experiences to the board. One way to find these candidates is by asking diverse directors to mine their networks, which tend to be more diverse, for potential candidates. Many board search firms have specialty diversity practices who have strong pipelines of diverse, board-ready candidates. These search firms can also assist in ensuring that the role specification does not include unnecessary criteria which may serve to exclude qualified diverse candidates.

## ENABLING REGULAR REFRESHMENT OF THE BOARD

The Working Group considered the impact of term limits and age limits on board refreshment. The Working Group discussed how age and term limits can be used to simplify succession planning because they make it apparent what skills and experiences are moving off the board and might need to be replaced. For example, one Working Group member noted that her board wants to have at least one current or former CEO on its board at all times.

While impersonal and predictable mechanisms like term and age limits can take the onus off director offboarding and facilitate long-term succession planning, the Working Group concluded that they do not necessarily create a stronger board because they make it difficult to retain valued directors past an arbitrary limit. Sometimes, directors who are due to leave are more valuable than some directors who remain.

The group considered average tenure as an alternative to term limits as a way of encouraging board refreshment. For example, the board of directors of one leading company, recognizing the insights that long-serving directors may offer, avoided imposing a term limit. Instead, the company follows a board tenure policy that targets an average tenure of 10 years or fewer for the board's independent directors. This allows the board to use judgment in how to best attain the average tenure goal. Other approaches include a tiered-tenure model that advocates for at least one director with <5, 5–10, and 10 years or more of service. Such approaches call attention to the value that directors with various levels of tenure and experience bring to the board when the committee approaches and discusses refreshment.

Regardless of the method adopted, directors must understand that they should stay relevant and engaged to maintain their seat on the board. Board membership should never be considered a long-term or lifetime appointment. Making that clear to new directors before they join the board is also an important task for the committee chair or the board chair or LID.



## Fostering Continuous Improvement in Board Performance



The nominating and governance committee plays a crucial role in fostering continuous improvement in board performance. By ensuring that all board members have a thorough onboarding, enabling high-quality continuing education opportunities, and requiring rigorous board and committee self-evaluation, the committee can prepare the board to meet the challenges facing the company and deliver on its strategic objectives.

### ENSURING INCLUSIVE AND EFFECTIVE ONBOARDING

To ensure that board members have the necessary skills and knowledge to oversee the business and the corporate strategy, the nominating and governance committee should work with management to provide access to ongoing education and training, starting with a comprehensive onboarding program.

One Working Group member noted that a board-readiness program can help new directors without board experience get a head start. The onboarding will need to cover board members' roles and responsibilities; governance principles and best practices; financial management; strategic planning; risk management; and board culture and dynamics. New directors should also have specific committee onboarding for the committees on which they will sit. New-director onboarding should also include education about the company itself, supported by reference materials related to the company's strategy, financial performance, and business model. This process should also include meetings with the CEO, chief financial officer (CFO), and other management leaders.

Being trained in the business and governance fundamentals is not enough; new directors also need to learn how to participate on the board as active members of the team. The onboarding program should take steps to quickly acclimate new board members so that they can contribute meaningfully to board discussions as soon as possible. New directors often adopt a listening approach to their first few meetings, but their input and fresh perspective can be invaluable from the start of their tenure. Additionally, given the speed at which the business environment is moving, expectations are growing for new directors to effectively participate early in their tenure.

One way to encourage early engagement is to make sure that new directors interact with the members they did not have a chance to meet during the interview process. Setting up virtual one-on-ones in the first six months can accelerate new directors' adjustment to the board. In-person board retreats, in particular, allow for more informal interactions that can level the playing field.

Mentorship is also important for improving new director engagement. Matching experienced directors with new directors for their first 6 to 12 months, starting even before they attend their first board meeting, can expedite acclimation as well. The mentor must be willing to give feedback to and receive feedback from the mentee.

Encouraging new board members to attend all committee meetings during their first year can help to accelerate learning about the company and director & management relationships and understanding of critical issues. Given that many new directors are also sitting executives, thought should be given to how that participation is best achieved—for instance, whether new directors could participate virtually. If availability is an issue, then the committee needs to consider which board committee membership will give the new director the best overview of the business.

## ENABLING CONTINUING EDUCATION FOR THE BOARD AND INDIVIDUAL DIRECTORS

The role of the board director has evolved. Today, directors serve on fewer boards and spend more time on each board. Because the role has become more professionalized, it requires continuous learning.

Yet the Working Group was clear that many directors resist board education. Even if directors reject the idea of formal board and professional training, they must stay informed on relevant business trends. This is especially true for retired directors who may be less familiar with emerging issues, such as DE&I, climate, social issues, newer technologies, and cybersecurity.

To offset this resistance, the nominating and governance committee must be more intentional about board education for both the board as a whole and for individual directors.

For the board, it can be difficult to develop an overall program that satisfies diverse interests and meets evolving needs. Therefore, the committee should identify key topics for education—working with company management and the board to identify subject areas relevant to future trends—and seek feedback on them from directors. Then the board can either engage management expertise or bring in external experts for a deep dive into each of those topics.

Training for the entire board can also include exercises that prepare the board for potential crises, scandals, or activist investors that, without preparation, could erode board functioning.

The committee should also offer different venues and types of education. For example, the board can set its meetings in different company locations, so directors learn about different parts of the business. The board should also look to alternative sources of information about the industry; in one company, directors are encouraged to listen to competitors' earning calls. Bite-size education, such as hour-long sessions that cover hot topics with provocative speakers, can also energize the board. These short sessions can also take place outside board meetings and can be recorded for directors who cannot attend the live session.

For individual directors, the committee should set expectations that encourage continuous skill and knowledge development through self-directed training and professional development opportunities. In some organizations, directors are encouraged to create a development plan as part of their renomination process. Other boards curate a bank of external courses that directors recommend.

Some boards offer an educational stipend that covers professional memberships and courses plus travel and accommodation expenses. Others have an open-ended training budget. The use of board funds should be tracked by the corporate secretary with an annual review by the nominating and governance committee. High-quality director-education programs can be highlighted in the company's proxy statement to show the committee's commitment to improvement and director education.

## CONDUCTING RIGOROUS BOARD AND COMMITTEE SELF-EVALUATION

To ensure that the entire board is continually improving its performance, the nominating and governance committee should regularly assess the board's progress. This can involve conducting an annual performance evaluation, including feedback from directors and perhaps even senior management. The evaluation should assess overall board effectiveness, the leadership provided by the chair or LID and committee chairs, and individual-directors' performance. This information can be used to identify areas for improvement and to develop a plan for addressing any shortcomings or gaps in board composition. Board evaluation should not be just a check-the-box procedure, but a thoughtful exercise that produces insightful and actionable outcomes. Additionally, results of director evaluations should be included in decisions to renominate directors.

The three most common topics covered in board evaluations in the United States are board and committee skills and composition; board structure and responsibilities; and board culture, dynamics, functioning, and operations, according to a 2022 study by Korn Ferry.<sup>2</sup>

The annual board evaluation process can range from informal to formal and robust, but whatever method is used, the independent board chair or LID should take charge of this process. Having a structure that identifies "what good looks like," such as the statement of expectations, and providing feedback accordingly, helps improve performance and provides a space for difficult conversations to take place.

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<sup>2</sup> See Korn Ferry's report, *Annual State of Board Evaluation in the U.S. 2022* (Korn Ferry, 2022), p. 6.

# 4

## Improving Oversight of Cross-Board Matters that Often Fall to the Nominating and Governance Committee



The nominating and governance committee plays a vital role in overseeing issues that span across committees. Specifically, the committee may be responsible for CEO and (sometimes) executive succession, oversight of sustainability matters including climate, and decisions about whether to form new committees.

### PLANNING FOR CEO AND EXECUTIVE SUCCESSION

The process for handling the succession of CEOs and other executives varies by board, but NACD board practices and oversight data reveal that 63 percent of directors believe that CEO succession planning is an “important” or “very important” area of improvement for their board.<sup>3</sup> In some boards, the compensation committee drives succession planning with support from human resources and others with specialized skills in this domain.

On other boards, the nominating and governance committee plays a critical role in planning for emergency and long-term CEO succession and in overseeing plans to fill key management roles that interact with the board or one of its committees, including the chief financial officer, general counsel, and heads of internal audit and/or compliance. Whichever committee drives the process should invite the chief human resources officer to attend and advise to ensure connectivity to the organization’s approach to succession planning, talent management, and development.

When they oversee CEO succession, nominating and governance committees often coordinate processes, while the board weighs in on the decisions. One Working Group member observed that the committee’s role is to ensure that the board follows a methodical process and observes best practices. In that company, the committee’s responsibility is to bring everything together, coordinate the scheduling, and lead uncomfortable conversations. Other boards may set up search committees composed of directors who have experience in CEO searches and succession.

The roles of committees differ from company to company in emergency succession scenarios, but frequently, the nominating and governance committee leads search and other processes. Sometimes an emergency appointment of an interim CEO runs in parallel with the search for a long-term replacement, and the committee may be working on both matters. However, continuous succession planning that is effectively embedded as a fundamental component of the committee’s work should preempt many emergency succession planning scenarios.

<sup>3</sup> NACD, *2023 Governance Outlook* (Arlington, VA: NACD, 2022), p. 5.



Whatever the process, the key is for the nominating and governance committee to foster a culture of development at the board level. Establishing processes and committees in advance of the need can expedite decision-making and lead to better results. One Working Group member suggested that the board talk about succession at every meeting. “Succession discussions can’t happen once a year,” they noted. “Succession must be a continual dialogue for all roles, not just the CEO.”

## ADDRESSING SUSTAINABILITY, INCLUDING ESG

Research from Korn Ferry shows a substantial rise in the influence of ESG and sustainability on corporate boards.<sup>4</sup> Between 2016 and 2022, there was a 164 percent rise in usage of ESG and sustainability-related terms in committee names. More than a quarter of the S&P 500 included sustainability-related terms in a committee name in 2022. However, there is no clear consensus on where ESG issues should be dealt with on the board. The location depends on how the company defines ESG, its board committee structure and bandwidth, its development stage, and more. Options are including ESG/sustainability within the nominating and governance committee, splitting responsibilities among many committees, or setting up a separate sustainability committee—an alternative that 13 percent of the S&P 500 have chosen, up from 7 percent in 2016. In many companies, the responsibility for corporate and social responsibility, governance, shareholder engagement, and disclosures all fall within the nominating and governance committee’s purview.

But that does not necessarily mean that the nominating and governance committee must “own” ESG. The committee may instead serve as a quarterback, ensuring that each committee and the board as a whole are doing the right things with regard to environmental and social governance. Or it may lead the recruitment of new directors with ESG expertise and help secure management support for the committees doing ESG-related work.

Depending on how the organization assigns responsibilities for ESG, each committee may have a role to play in overseeing aspects of it. For example, the compensation committee could come into play where ESG metrics affect the compensation structure. The increasing focus on the accuracy of ESG reporting has resulted in the audit committee playing a more active role in ensuring the company’s ESG disclosures are reviewed with a rigor like that applied to financial reporting. Meanwhile, the nominating and governance committee could cover corporate responsibility, succession, and governance concerns. Holding joint sessions between committees with ESG responsibilities can lead to robust insights and improve efficiency.

As mentioned earlier, standalone sustainability committees are gaining some traction. However, the Working Group noted several potential problems with standalone ESG committees, namely that the structure could send mixed signals to investors. On the one hand, a standalone sustainability committee might suggest a strong commitment to ESG. Or it might indicate that other committees are not focused on ESG issues.

Whatever the approach taken to committee oversight of ESG and sustainability, it is important that the full board play a role to ensure that the company is fully integrating ESG and sustainability into its strategy development and risk management processes.

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<sup>4</sup> See “[New names, new focus](#),” posted on [kornferry.com](#).

## FORMING NEW COMMITTEES

Expectations of boards are increasing as institutional investors and regulators alike look to boards for oversight of the ever-changing landscape of corporate risk. The list of board responsibilities has lengthened to include issues like emissions reduction, DE&I, AI, cybersecurity, digital transformation, and supply chain continuity.

Some boards are forming new committees to respond to these emerging issues. In addition to creating the stand-alone ESG committees mentioned earlier, Korn Ferry research shows boards are also starting technology-related committees: between 2016 and 2022, there was a 50 percent increase in the number of companies with “technology” or a related term in a committee name.<sup>5</sup> NACD survey data also reveal the declining use of more traditional executive and finance committees on boards since 2020, while favoring the creation of committees focused on technology or risk.<sup>6</sup>

While the decision to create a new committee ultimately rests with the full board, the nominating and governance committee shapes the discussion as part of the annual review of committee charters. It identifies the need for a new committee to meet the organization’s strategic priorities. It can then take a lead in determining the new committee’s purpose and scope. The committee may work closely with the board chair or LID or other members of the board to determine the most effective structure and composition for the new committee, based on the organization’s needs and priorities. It may also develop guidelines and procedures for the new committee’s operation, including defining the committee’s responsibilities and reporting structure, establishing meeting schedules and agendas, and ensuring that the committee’s work aligns with the organization’s broader goals and objectives.

Once the purpose and scope of the new committee have been established, the nominating and governance committee typically identifies prospective committee members with the skills and expertise to serve on the committee. This may involve reviewing the qualifications and experience of current board members and looking for external candidates who can bring unique insights to the committee’s work.

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<sup>5</sup> See “New names, new focus,” posted on [kornferry.com](https://www.kornferry.com).

<sup>6</sup> NACD, *2022 Inside the Public Company Boardroom* (Arlington, VA: NACD, 2023), p. 5.

## Overseeing Board Involvement with Shareholders and Other Key Stakeholders



The nominating and governance committee plays a crucial role in overseeing the involvement of the board—at the request of management—with shareholders and other key stakeholders, including employees, customers, suppliers, regulators, and the broader community. The ever-changing environment that companies operate within has required boards to be more attentive and aligned with the increasing expectations among stakeholder groups in recent years. Effective engagement with these stakeholders is essential for the organization’s success, and the committee can help ensure that the board is prepared to carry out this role.

As *The Future of the American Board* report noted, “Governance will refocus on corporate purpose as the force that motivates and unifies corporate activity, with an emphasis on employee interests, teamwork, and the interdependency and mutual interests of shareholders and a broad array of other stakeholders in the long-term success of the company.”<sup>7</sup>

The Working Group focused on shareholders and employees as two of the stakeholder groups that were more often the focus of the nominating and governance committee, noting, for example, that the committee was rarely involved in engagement with regulators or public policymakers.

### DEVELOPING A BOARD STAKEHOLDER PROGRAM

The nominating and governance committee can work with the CEO to (1) agree on clear expectations for when board involvement with key stakeholders would be valuable to the company and (2) work with the organization’s leaders to memorialize these expectations in a stakeholder engagement plan. The plan should include a feedback loop that ensures feedback from different stakeholders comes back to the board.

### OVERSEEING SHAREHOLDER ENGAGEMENT

The nominating and governance committee can improve shareholder engagement by promoting transparency and accountability on the issues their investors care most about, such as business strategy, including mergers and acquisitions; and the alignment of compensation and performance,

<sup>7</sup> NACD, *The Future of the American Board* (Arlington, VA: NACD, 2022), p. 9.

subject of a landmark SEC rule effective for the spring 2023 proxy season.<sup>8</sup> Investors may request engagement with particular board leaders. This gives shareholders the opportunity to ask questions and provide feedback. Quality shareholder engagement can demonstrate to investors that directors are actively involved in strategy and risk management discussions. The stakeholder engagement plan should include training expectations for any director who meets with investors—unless they have experience as part of a current or very recent executive role.

## OVERSEEING DISCLOSURES

The nominating and governance committee oversees the disclosure of the company's proxy statement. The committee must review and approve the company's proxy statement before it is distributed to shareholders, paying special attention to the accuracy of governance practices, including the composition of the board of directors and other matters that may be subject to a shareholder vote. The committee also has the opportunity each year to ensure the proxy statement is providing quality disclosure in key areas of investor interest and should be receiving feedback throughout the year from Investor Relations and Legal on what the key issues are likely to be. The committee should also consider what peer companies are doing.

If the committee also has responsibility for sustainability, it will need to provide oversight of the company's sustainability report and ensure it is meeting the company's agreed standards of disclosure and data integrity.

The nominating and governance committee should also ensure the board has a plan to deal with activist shareholders, including a directive that all board members should redirect activist communications to the CEO or board chair/LID to ensure a consistent response. They can also proactively apply an activist lens to their governance structures, policies, and disclosures, suggesting changes where appropriate.

## OVERSEEING EMPLOYEE ENGAGEMENT

The nominating and governance committee can work with board leadership and appropriate committees (e.g., compensation/HR committee) to foster a relationship with employees in collaboration with the CEO and management team. This will enhance the board's oversight of the company's culture and provide insight into the effectiveness of the talent management approach.

Knowledge sharing can happen in a variety of ways. Employee survey results can be shared with the board—an approach that has proven increasingly relevant as many companies have evolved from the traditional annual survey to more frequent and dynamic survey tools. For more interaction and greater insight, some boards schedule one-on-one or small-group lunch sessions with employees including, for example, Employee Resource Groups that can assist the board in gaining insight into the specific perspectives of diverse populations within the organization. Others have created “board buddy programs” that pair board members with employees. Rotating site visits for board meetings can also facilitate more board-employee interactions.

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<sup>8</sup> See the SEC's *Final Rule: Pay Versus Performance*, August 25, 2022.



# Where to Go from Here

The next step is for the committee to decide which recommendations in this blueprint to take back to the full board. The Working Group has prepared a program of committee activities, organized by theme, to facilitate discussions with your committee and board. Use this program to determine what steps your committee needs to take next to prepare for the future. We suggest you start by determining which of the activities in the left-hand column you agree with as a committee and wish to implement. For those selected activities, work through the questions at the top of the sheet. You may wish to seek the advice of internal or external legal counsel to help answer some of the questions and to help with implementation.

Remember that this exercise is likely to be the start of a continuous process of updating and modification to ensure the committee remains a strategic asset.

As well as the program of committee activities, you can also find a checklist of questions to consider when it is time to update the nominating and governance committee charter. (See [Appendix B](#).)

DO THESE CHANGES REQUIRE OR SUGGEST:	Amending the committee charter?	Ensuring the committee has members with the right skills and experiences?	Securing the right management and third-party support for the committee?	Planning the annual committee calendar and finding time on the committee agenda?	Working with other board committees?	Disclosing the work of the committee to stakeholders?	Evaluating the committee's performance in a different way?
<b>1. Setting board culture and expectations for directors</b>							
Ensure board culture and director expectations are set (e.g., develop a clear written statement of expectations).							
Ensure board culture is inclusive.							
Use the agreed expectations to develop a rigorous renomination process, including director reviews.							
Work with board leaders to reinforce the agreed culture.							
<b>2. Aligning board composition to corporate strategy</b>							
Create a long-term board succession plan.							
Consider policies to encourage regular board refreshment, including average tenure goals.							
Ensure directors understand their role is not a lifetime appointment.							

DO THESE CHANGES REQUIRE OR SUGGEST:	Amending the committee charter?	Ensuring the committee has members with the right skills and experiences?	Securing the right management and third-party support for the committee?	Planning the annual committee calendar and finding time on the committee agenda?	Working with other board committees?	Disclosing the work of the committee to stakeholders?	Evaluating the committee's performance in a different way?
<b>3. Fostering continuous improvement in board performance</b>							
Implement a formal director onboarding program.							
Establish a continuing education program to foster ongoing learning by the board and individual directors.							
Set a budget for training. Review board education expenses as reported by the corporate secretary.							
Conduct an annual board performance review, including individual director review.							
<b>4. Improving oversight of cross-board matters that often fall to the nominating and governance committee</b>							
Ensure regular conversations about CEO succession.							
Ensure a plan for emergency CEO succession is discussed.							
Consider how ESG oversight should be covered by the board and committees.							
Ensure the board understand the company's key ESG risks and strategies.							
Identify needs for new committees and if new director skills and experiences will be needed.							
<b>5. Overseeing board involvement with shareholders and other key stakeholders</b>							
Work with the CEO to agree on a plan for board-stakeholder involvement.							
Review the stakeholder engagement plan.							
Oversee proxy and sustainability disclosures.							
Support management with shareholder engagement, as needed.							
Consider structured activities to improve employee engagement.							

# Appendix A: Board Member Expectations and Responsibilities

## XYZ CORPORATE BOARD MEMBER EXPECTATIONS AND RESPONSIBILITIES

Each board member is expected to engage in the following activities:

1. Participate effectively in board meetings, including articulating and responding to alternative viewpoints through effective communication.
2. Devote the time required to be an effective board member, including serving on two or more board committees, preparing for board and committee meetings through advance review of meeting materials, and attending the board annual retreat and at least 75 percent of all board and committee meetings, in person or by phone (if necessary).
3. Attend events designated for board members, such as board dinners and social functions designed to integrate the board and acquaint board members with one another and members of management, and other special functions as requested.
4. Participate in periodic board member self-evaluations and annual board evaluations and be open to constructive criticism on performance as a board member.
5. Actively participate in board work, meaning preparing for each meeting and actively engaging in discussion at board meetings.
6. Minimize the use of personal electronic devices that disrupt focus and participation during board or committee meetings.
7. Stay informed about the organization and keep abreast of recent developments pertaining to XYZ Corp. and the industry in general.
8. Participate in board orientation and other educational opportunities offered by XYZ Corp.

Agreed to and accepted:

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## Appendix B:

# Checklist of Questions to Consider When Updating the Nominating and Governance Committee Charter

- Does the committee's name in the charter reflect the committee's current and planned activities beyond nomination and governance (e.g., director compensation, succession planning, shareholder or stakeholder relations, and/or sustainability)?
- Does the charter define what it means by "independence"?
- Does the charter describe specifically the kinds of qualifications the committee seeks when it looks to nominate board members (or does it refer to a document that does)?
- Does the charter indicate the full range of sources for board nominations, including shareholders?
- When referencing the committee's role in developing corporate governance guidelines, does the charter include a link to the most current guidelines? Are the guidelines in need of possible revision?
- When referencing the committee's role in overseeing evaluation of the board, does the charter provide for possible use of outside advisors?
- When referencing use of outside search firms, does the charter make it clear that the committee is responsible for approving their compensation and scope of work?
- Is the charter language describing qualifications of committee members consistent with the current goals and title of the committee?
- When describing committee member appointment and removal, does the charter give terms for rotation of members and leadership?
- When discussing structure and operations, does the charter ensure adequate committee size and meeting frequency without defining either of these too rigidly?
- Is the language of the charter flexible, using "may" rather than "will" to avoid creating obligations that the committee may not be able to fulfill?
- Is the committee working closely with legal counsel to ensure that the revised charter will not create any unintentional liability exposure?





# Appendix D: Board Matrix Template

**How to Use This Tool:** Nominating and governance committees can use the following matrix to identify gaps in the board’s composition that need to be filled to successfully guide and challenge management on the strategy. Committees should build out a board matrix by rigorously assessing existing director skills, expertise, and experiences against those in the inventory. (See [Appendix C.](#)) The plan should also consider the specific needs of each committee and the longer-term development of potential future board leaders.

GAP ANALYSIS OF EXPERTISE/EXPERIENCE REQUIRED FOR MAXIMUM BOARD EFFECTIVENESS MAPPED FOR ALL DIRECTORS																
	EXPERIENCE/EXPERTISE								DEMOGRAPHICS				COMMITTEES			
									Age	Gender	Tenure	Other Public Co. Boards	Audit	Nominating & Governance	Compensation	Risk
Director A <i>CEO</i>																
Director B <i>Chair</i>																
Director C <i>Independent Director</i>																
Director D <i>Independent Director</i>																
Director E <i>Independent Director</i>																
Director F <i>Independent Director</i>																
Director G <i>Independent Director</i>																
Collective Board Profile																

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