2016–2017 NACD Public Company Governance Survey

EXECUTIVE SUMMARY

As regulators' and investors' expectations of boards continue to increase and the business environment changes rapidly, directors seek affirmation that their governance practices are effective, fit for purpose, and clearly communicated to stakeholders. It is therefore no surprise that annually more than a thousand directors and executives participate in our survey. They find value in benchmarking their approach in areas such as board structure, composition, education, recruitment, and evaluation year over year, and they use the results to identify opportunities for improvement and validate board priorities for the coming year.

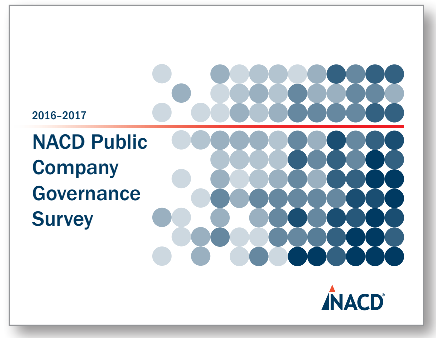
In addition to benchmarks on governance practices, this year's report offers detailed insights on the directors' outlook for 2017 on

- key business trends and critical board priorities;
- board involvement in strategy development;
- the state of board risk oversight, specifically cyber risk; and
- the growing challenge of activist investors.

Selected Key Findings:

1. Economic uncertainty and business-model disruption are among the top concerns for corporate boards in 2017. Respondents also report that major industry changes, growing regulatory demands, and cyberattacks will significantly affect their companies over the next 12 months.

2. Growing external uncertainty seems to accelerate the momentum for increased board leadership in strategy, but **75%** of respondents report that short-term performance pressure on both boards and management compromises their ability to focus on long-term strategic goals.



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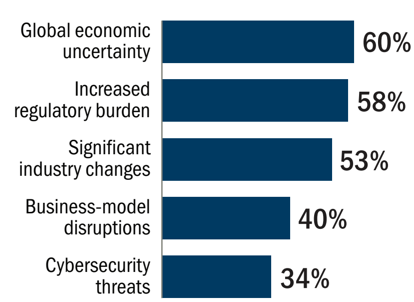
To learn more about NACD, visit NACDonline.org.

What five trends do you foresee having the greatest effect on your company over the next 12 months?



EXECUTIVE SUMMARY, CONTINUED

3. Average director time commitment remains largely unchanged, although many directors report that insufficient time is allocated to many key issues. The average director time commitment has stayed relatively flat at **245** hours per year, with more time spent on preparations and less time on travel compared to last year. The average number of meetings has also remained flat.

4. Boards receive much information from management but express concerns about the quality of that information. While directors noted an average increase of **12** hours for document review in preparation for meetings, roughly **50%** of respondents noted a glaring need for improvement in the quality of information provided by management.

5. Board risk oversight is becoming a robust practice, with a large number of boards looking beyond a review of the top risks to consider the linkage between risk and strategy, the impact of incentives, and the strength of their company's risk culture.

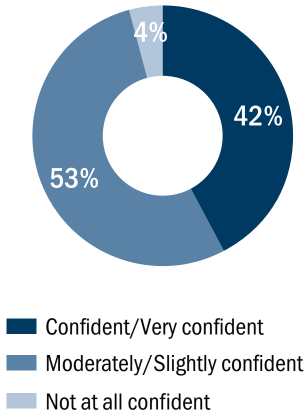
6. Directors continue to wrestle with effective oversight of cyber risk. Many of them lack confidence that their companies are properly secured and acknowledge that their boards do not possess sufficient knowledge of this growing risk.

7. Boards no longer primarily rely on personal networks to recruit new directors, signaling increased professionalism and a desire to tap into a wider network of candidates. For the first time since NACD began to survey its members on this issue, search firms were the leading source boards used to identify their most recently recruited director.

8. **Fifty-six percent** of respondents report that their boards currently spend too little time on director education, while the amount of time that directors dedicate to formal education has stayed relatively flat at **18.5** hours annually.

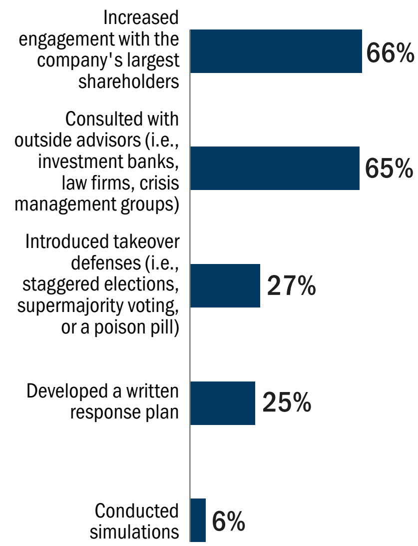
9. Only **31%** of respondents report that improving the board evaluation process is an important or very important priority for their boards in the next 12 months. In fact, just **41%** of boards now use individual board evaluations.

How confident are you that your company is properly secured against a cyberattack?



10. Boards are increasing their shareholder engagement, but their level of preparedness to address activist challenges is uneven. This year, **48%** of respondents indicate that a representative of their board held a meeting with institutional investors over the past 12 months, compared to **41%** in 2015. Only **25%** of respondents have developed a written activist response plan, which may be a critical tool to effectively address a forceful challenge from an activist.

Which of the following measures has your board taken to prepare for an activist investor challenge?
(Please select all that apply.)



The National Association of Corporate Directors (NACD) empowers more than **17,000** directors to lead with confidence in the boardroom. As the recognized authority on leading boardroom practices, NACD helps boards strengthen investor trust and public confidence by ensuring that today's directors are well-prepared for tomorrow's challenges. World-class boards join NACD to elevate performance, gain foresight, and instill confidence. Fostering collaboration among directors, investors, and governance stakeholders, NACD has been setting the standard for responsible board leadership for 40 years. To learn more about NACD, visit NACDonline.org. To become an NACD member, please contact Steve Kalan at Join@NACDonline.org or 202-572-2089. If you are already a member, contact your NACD Membership Advisor at MembershipAdvisor@NACDonline.org to ensure that you are receiving the best value from your membership.

