



**29th Annual
Board of Directors Study
2002**

Fortune 1000 Highlights



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Executive Summary

It has been an extraordinarily turbulent year for American companies and their boards, marked by near-unprecedented volatility in investment markets, sharp erosion of investor confidence, heightened focus on the validity and credibility of financial reporting practices, and high-profile corporate failures such as Enron and Worldcom. In this environment, the board's critical role in overseeing fundamental corporate practices — how effectively that role is being executed and how it can be strengthened — has come under scrutiny as never before.

This publication, a supplement to Korn/Ferry International's *29th Annual Board of Directors Study*, presents responses and findings from survey participants on the boards of *Fortune* 1000 companies. The study indicates that these organizations are making long-term progress in efforts to implement board practices for stronger corporate governance — but that some significant gaps still remain.

The findings are based on responses from 908 directors of *Fortune* 1000 companies, representing 209 *Fortune* 1000 boards.

This year:

- 71 percent of *Fortune* 1000 boards have written guidelines on corporate governance, compared with 65 percent in 1995;
- 37 percent of boards formally evaluate the entire board's performance on a regular basis, compared with 26 percent in 1995; and
- 62 percent of boards have a formal committee that reviews corporate governance processes and board operations, compared with 41 percent in 1995.

While progress is being made regarding corporate governance processes and board evaluation, boards will have to do more — especially in light of new regulatory mandates designed to formalize these processes in the wake of the past year's notable failures of board oversight.

For example, corporate governance rule proposals adopted by the New York Stock Exchange Board of Directors in August state that listed companies must adopt and disclose corporate governance guidelines on management succession and other key processes. Yet our survey of *Fortune* 1000 directors reveals that:

- only 64 percent of boards have a management succession committee or process, and
- only 51 percent of directors say the board is effective in this area.

Mandates such as those of the NYSE, with prescriptions for formal governance guidelines, could create issues for the significant percentage of companies that, according to our survey, do not have such guidelines or processes at this time.

The Korn/Ferry *Fortune* 1000 survey also shows that evaluation of individual directors clearly has not yet taken hold as a board practice.

- 72 percent of respondents say that individual directors should be evaluated regularly regarding performance. However:
 - only 21 percent of boards currently conduct such evaluations, and
 - only 41 percent of directors on those boards think that the evaluations are effective.

Boards going forward can anticipate closer examination of how they measure the performance and, ultimately, the effectiveness of directors on behalf of shareholders, as part of the heightened concern over how well boards execute their oversight role.

Other key *Fortune* 1000 survey findings include:

- Independence is an essential concern of directors:
 - 79 percent of directors say the former CEO shouldn't sit on the board.
 - 73 percent of directors say the board should hold regular executive sessions without the CEO during board meetings, yet
 - ▲ only 41 percent of boards hold such sessions.
- Directors are spending an increasing amount of time on board matters — an average of 15.3 hours per month, or approximately 183 hours annually, compared with 156 hours annually in 2001.
- Most directors (82 percent) say their company's CEO compensation program is effective.
- 59 percent of directors think the majority of a director's compensation should be in stock.
- 52 percent of boards have a requirement that directors own shares of company stock.
- 58 percent of directors would like to see their board become more diverse by increasing its minority representation.

Korn/Ferry's *29th Annual Board of Directors Study — Fortune 1000 Highlights* provides a comprehensive and illuminating look into the state of board practices at the nation's leading companies — charting progress made, as well as progress still to be achieved. The publication represents Korn/Ferry's ongoing commitment to generating and sharing timely, practical information from the nation's corporate leaders regarding their efforts to maintain and extend "best practices" for corporate governance.

We hope that you find the study informative and useful, and that it provides you with insight into the key steps that governance programs must take to address today's pressing concerns about the credibility and responsibility of corporate America.



Charles H. King
Managing Director,
Global Board Services Practice

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Proxy Information

Analysis of the 2001 proxy information shows the average board size to be 11 directors, 2 insiders and 9 outsiders, which is the same as the 2000 proxy data. Inside and outside director mix has remained consistent for the last six years.*

Table A — Present Number of Board Members

Size and Type of Company	Average Number Inside Directors	Average Number Outside Directors	Average Number Directors	Average Number Board Meetings
Under \$3 billion	2	7	9	7
\$3 billion - \$4.999 billion	2	8	10	7
\$5 billion - \$9.999 billion	2	10	12	8
\$10 billion - \$19.999 billion	2	10	12	8
\$20 billion and over	2	11	13	8
Industrial	2	8	10	7
Banks	3	12	15	9
Other financial institutions	3	9	12	7
Insurance companies	3	10	12	7
Consumer products	2	8	11	7
Retailers	2	7	9	7
Advanced technology	2	7	9	8
Aerospace	2	10	12	9
Energy	2	9	11	9
Healthcare providers	2	8	10	8
Pharmaceuticals	2	12	14	8
Entertainment/Hospitality	3	10	13	6
Other services companies	2	8	10	7
Miscellaneous	2	9	12	8
All Companies	2	9	11	8
Average	2	9	11	8

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* *Italicized copy contains data from Fortune 1000 survey responses.*

Board Composition

Diversity continues to be a crucial component of board composition. Fifty-percent of Fortune 1000 boards are seeking women board members.

Proxy information indicates a slight upward movement from 2000 proxy data showing a 4 percent rise in women and investors sitting on boards.

Table B — Percent of Boards with One or More of the Following Individuals

	Proxy Data from			
	2001	2000	1999	1995
Retired executive (other companies)	93%	91%	88%	75%
Investor	91%	87%	86%	73%
CEO/COO (other companies)	82%	83%	85%	82%
Woman	78%	74%	74%	69%
Former government officials	56%	52%	44%	54%
Ethnic minority	68%	65%	65%	47%
African American	42%	41%	41%	34%
Latino	16%	14%	14%	9%
Asian	10%	11%	10%	4%
Academician	59%	56%	54%	53%
Commercial banker	30%	28%	25%	28%
Non-U.S. citizen	15%	15%	16%	17%

Committees

Table C — Percentage of Companies with:

Committee	2001	2000	1999	1995
Audit	100%	100%	100%	100%
Compensation	99%	99%	99%	99%
Stock options	86%	87%	80%	56%
Nominating	72%	73%	74%	73%
Executive	56%	57%	60%	65%
Board organization	48%	46%	44%	35%
Finance	35%	40%	41%	32%
Succession planning	30%	32%	34%	31%
Investment	19%	21%	23%	21%
Corporate responsibility	21%	22%	21%	19%
Directors compensation	30%	31%	31%	NA

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Committee Composition

2001 proxy information shows that committee composition hasn't changed significantly much from 2000. The average number of committee meetings has increased for the compensation, stock options and succession planning committees.

Table D — Committee Composition

Committee	Average Number Inside Directors	Average Number Outside Directors	Average Number Meetings
Audit	0	3	4
Compensation	0	3	5
Stock options	0	3	5
Nominating	0	3	3
Executive	2	3	4
Board organization	0	4	3
Finance	1	4	4
Succession planning	0	4	5
Investment	1	4	4
Corporate responsibility	1	4	3
Directors compensation	0	4	4

Board Compensation

The percentage of companies paying an annual retainer plus per-meeting fee to directors continues to decrease. Currently, 72 percent of *Fortune* companies provide this type of compensation to board members, a significant decrease from the 84 percent reporting the practice in 1995. During the same time period, those providing only an annual retainer increased from 14 percent to 20 percent.

Table E — Full Board Compensation

Percentage of companies paying:	2001	2000	1999	1995
Annual retainer plus per-meeting fee	72%	75%	77%	84%
Annual retainer only	20%	18%	17%	14%
Per-meeting fee only	5%	4%	4%	2%
No cash compensation (stock only)	3%	3%	2%	N/A
Total	100%	100%	100%	100%

Directors of *Fortune* companies providing an annual retainer and per-meeting fee saw a 4 percent increase in their cash compensation in 2001. The average amount awarded is \$42,343, compared with \$40,667 reported in 2000.

Table F — Annual Retainer Plus Per Meeting Fee

Type and Size	Average Compensation		
	2001	2000	1999
Under \$3 billion	\$33,792	\$33,687	\$31,777
\$3 billion - \$4.999 billion	37,567	35,910	36,591
\$5 billion - \$9.999 billion	42,264	41,202	40,524
\$10 billion - \$19.999 billion	47,589	48,484	46,287
\$20 billion and over	56,587	51,774	51,768
Industrial	40,467	37,978	36,025
Banks	38,418	38,415	36,372
Other financial institutions	45,138	42,162	42,693
Insurance companies	40,998	37,317	36,125
Consumer products	42,781	39,476	37,813
Retailers	33,716	32,299	32,134
Advanced technology	40,744	41,891	40,349
Aerospace	58,182	54,042	51,882
Energy	40,664	40,276	36,493
Healthcare providers	38,741	38,803	39,339
Pharmaceuticals	50,500	50,785	49,255
Entertainment/Hospitality	40,309	43,975	47,670
Other services companies	33,716	35,114	35,448
Average	42,343	40,667	39,749

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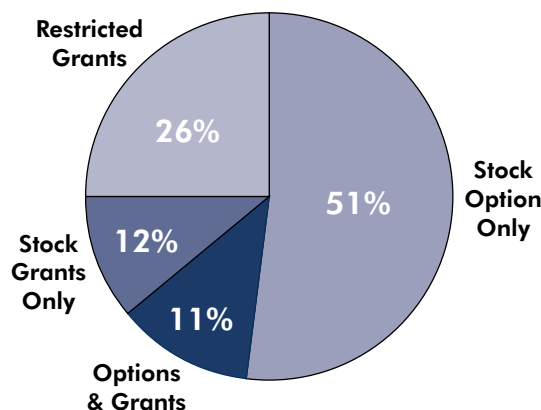
Fees paid to committee members and chairs in 2001 were relatively unchanged from the proxy data gathered in 2000. Committee members receive an average of \$1,148 per meeting while committee chairs are awarded an average of \$1,231 per meeting.

Table G — Average Committee Fees by Size and Type of Company

Type and Size	Committee Member Meeting Fee	Committee Chair Per Meeting	Committee Chair Retainer
Under \$3 billion	\$1,085	\$1,172	\$4,581
\$3 billion - \$4.999 billion	1,179	1,244	4,764
\$5 billion - \$9.999 billion	1,208	1,314	4,718
\$10 billion - \$19.999 billion	1,286	1,388	6,184
\$20 billion and over	1,205	1,243	6,987
Industrial	1,229	1,344	5,415
Banks	1,163	1,203	5,694
Other financial institutions	1,319	1,319	9,538
Insurance companies	1,080	1,090	5,381
Consumer products	1,086	1,165	4,817
Retailers	1,052	1,147	4,426
Advanced technology	1,209	1,283	6,276
Aerospace	1,095	1,189	5,354
Energy	1,143	1,207	4,217
Healthcare providers	1,027	1,101	6,048
Pharmaceuticals	1,309	1,439	9,030
Entertainment/Hospitality	1,049	1,209	4,346
Other services companies	1,285	1,317	3,621
Miscellaneous	1,023	1,219	3,588
All Companies	1,148	1,231	5,554

Survey data reveals that directors believe the majority of a director's compensation should be in stock (58 percent said yes), 41 percent in stock options and 45 percent in stock grants.

Table H — Stock Options & Grants Summary



Proxy Demographics

Table I — Participating Companies

Type and Size	Number of Companies	Percent of Companies
Under \$3 billion	430	48%
\$3 billion - \$4.999 billion	150	17%
\$5 billion - \$9.999 billion	149	17%
\$10 billion - \$19.999 billion	80	9%
\$20 billion and over	92	10%
Billion dollar companies	901	100%
Advanced technology	105	12%
Aerospace	11	1%
Banks	48	5%
Consumer products	59	7%
Energy	100	11%
Entertainment/Hospitality	17	2%
Healthcare providers	39	4%
Industrial	244	27%
Insurance companies	31	3%
Miscellaneous	12	1%
Other financial institutions	27	3%
Other services	44	5%
Pharmaceuticals	11	1%
Retailers	153	17%

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Survey Responses

The following responses are a supplement to Korn/Ferry International's *29th Annual Board of Director's Study*. The findings are based on responses from 908 directors of *Fortune* 1000 companies representing 209 *Fortune* 1000 boards.

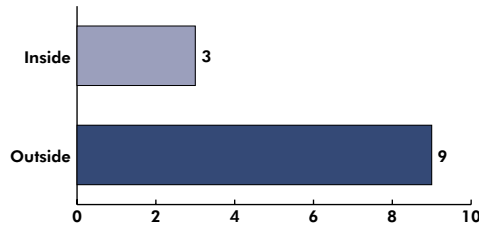
Board Composition

The average board in our survey consists of three inside directors and nine outside directors. According to respondents, the optimal board size is two inside directors and eight outside.

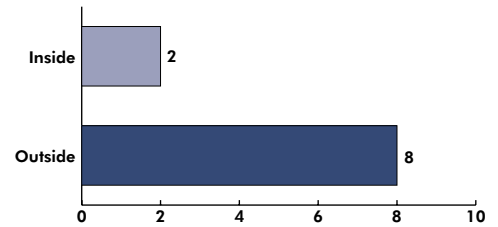
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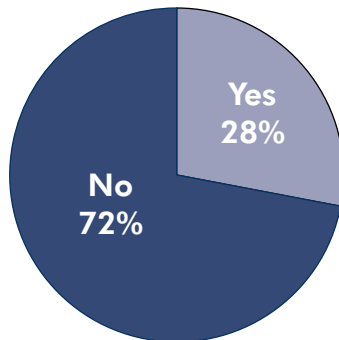
Current Board Size



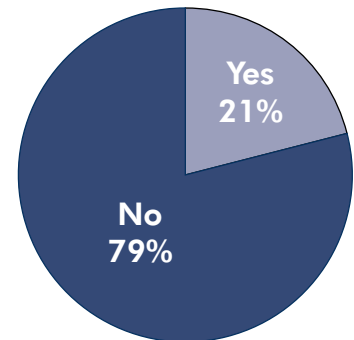
Optimal Board Size



Does the former CEO sit on the board?



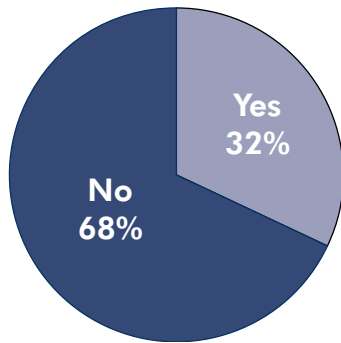
Should the former CEO sit on the board?



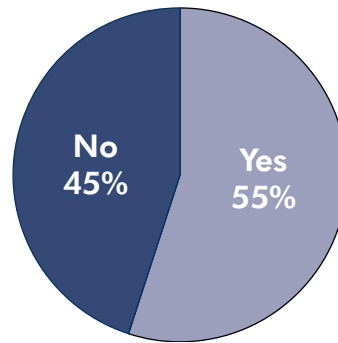
58%

of respondents said they would like to see their board become more diverse by increasing its minority representation.

If your chairman is also the CEO, do you have an elected or appointed lead director?



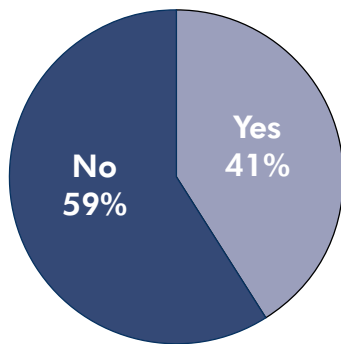
Should a board that has an inside director as chairman elect or appoint an outside director as the lead director?



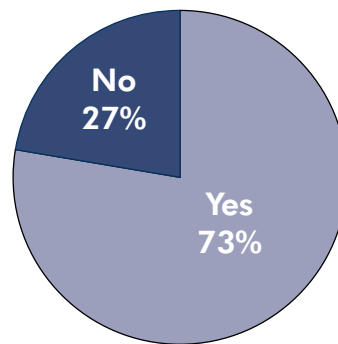
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Does the board typically hold regular executive sessions without the CEO during board meetings?



Should the board typically hold regular executive sessions without the CEO during board meetings?

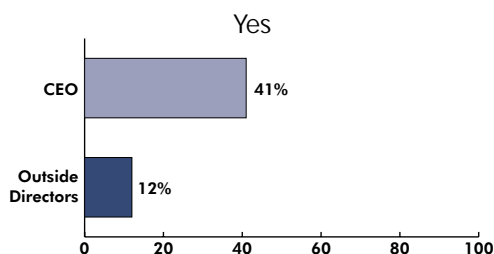


Diversity in the Boardroom

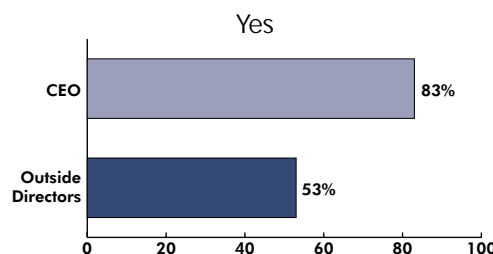
Are the following groups currently represented on your board?

Women	93%
African American	58%
Hispanic	19%
Asian	11%

Is there a limit to the number of other boards on which the CEO and board members may serve as outside directors?



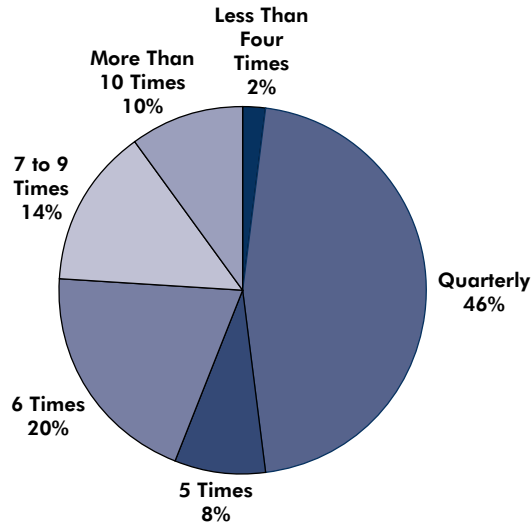
Should there be a limit to the number of other boards on which the CEO and board members may serve as outside directors?



Board Meetings

Board commitment and activity continues to intensify. The majority of *Fortune* boards meets more frequently than on a quarterly basis. One in ten meets more than 10 times annually, while 14 percent hold full-board meetings 7-9 times a year.

On average, how often does your full board meet per year?



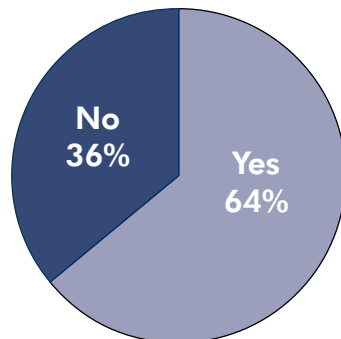
Management Succession

Proxy data reveal that 57 percent of *Fortune* companies have undergone a management succession process in the past three years. In spite of the frequency of change at the top, more than one-third (36 percent) of these companies do not have a management succession committee or process, despite strong public and regulatory support for creation and disclosure of such.

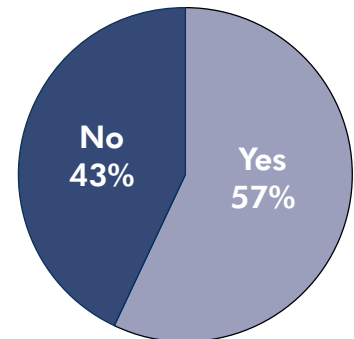
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average hours per month spent on board matters or 183 hours annually. 27 more than in 2001.

Does the board have a management succession committee or process?



In the last three years, has your company undergone a management succession process?

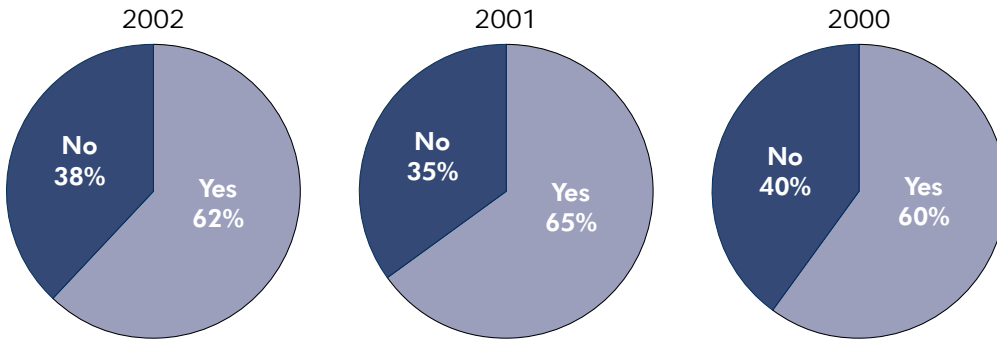


Managing Corporate Governance

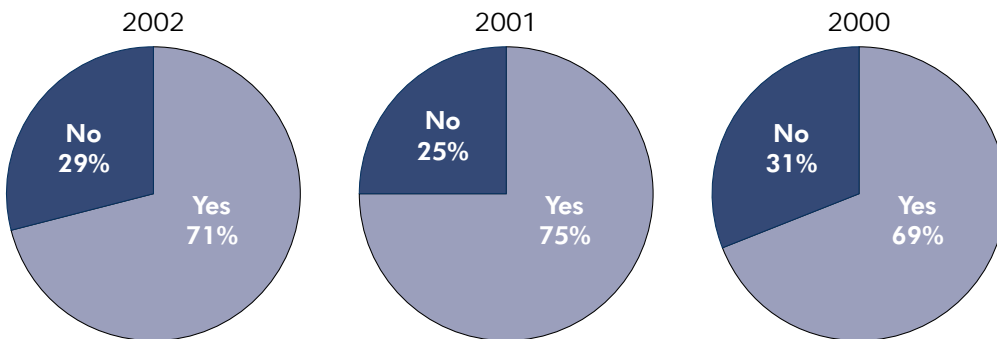
Contrary to the established trend, the percentage of directors reporting a formal committee that reviews corporate governance processes and board operations decreased to 62 percent from 65 percent reporting such a committee last year.

Similarly, the 71 percent reporting their boards have written guidelines on corporate governance marks a decrease from the 75 percent reporting the practice last year. (We believe this decrease is a result of variation in year to year respondents rather than an actual decline.)

Does your board have a formal committee that reviews corporate governance processes and board operations?



Does the board have written guidelines on corporate governance?

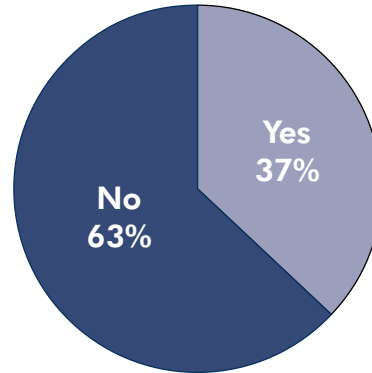


Evaluating Performance

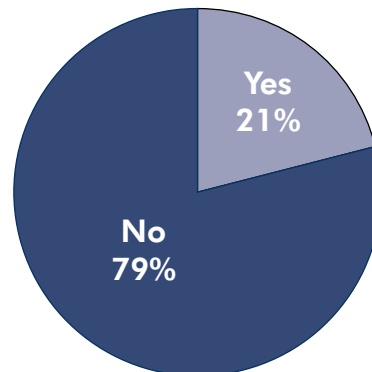
The percentage of boards conducting full-board performance evaluations decreased. Only 37 percent reported the practice this year compared with 42 percent formally evaluating the full board's performance last year.

However, the percentage of *Fortune* boards regularly evaluating individual director performance increased slightly, from 19 percent in 2001 to 21 percent this year.

Is the entire board's performance formally evaluated on a regular basis?



Does your board evaluate individual directors on a regular basis?



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72%

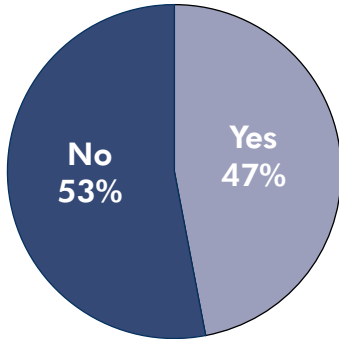
of respondents felt that individual directors should be evaluated regularly as to their performance.

Risk & Crisis

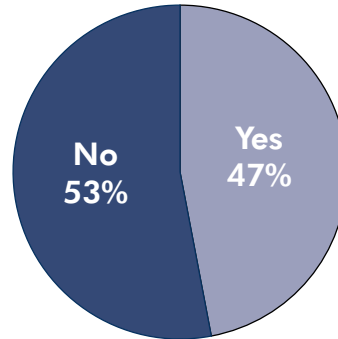
Though the past year was characterized by devastating crises, these events were not a catalyst for greater board involvement in risk and crisis management. More than half (53 percent) of the directors indicated that their board and management team had not developed or discussed a crisis management plan prior to September 11th. The same percentage reported no action had been taken post-September 11th.

As to assessing personal risk, the majority (51 percent) of directors report they have declined a board invitation because the risk was too great. Thirteen percent indicate they turned down an offer to serve in the past 12 months for this reason.

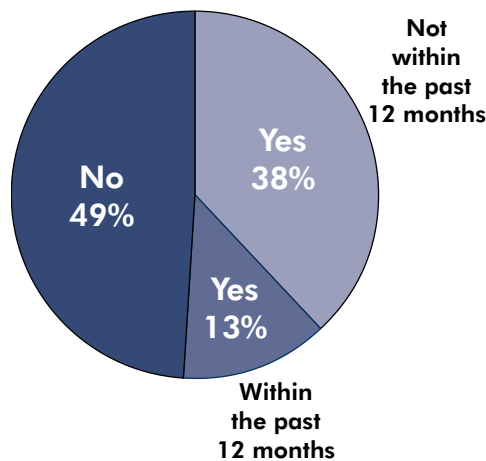
Had your board and management team developed or discussed a crisis management plan prior to September 11th?



Has your board taken any action to address crisis management since the tragedy of September 11th?



Have you ever turned down a board position because you felt your risk was too great?



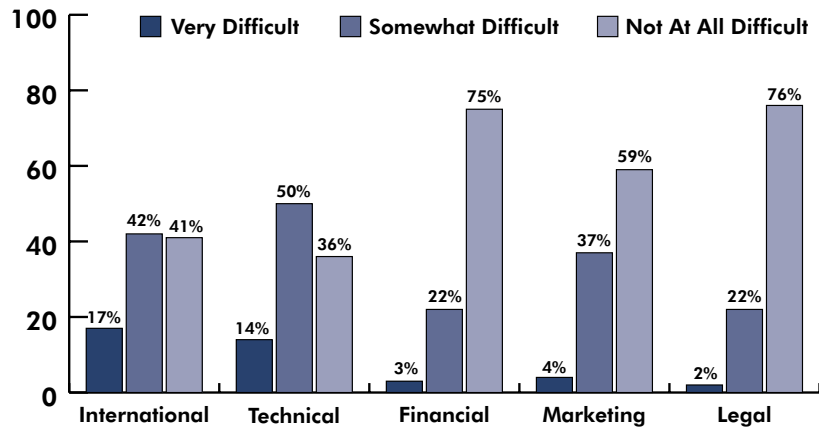
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30%
of respondents feel there is a director on their board who should be replaced.

Board Experience

How difficult has it been for your board to add directors with the following skill sets?



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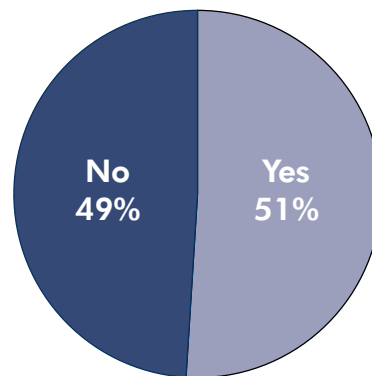
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Company Stock Compensation

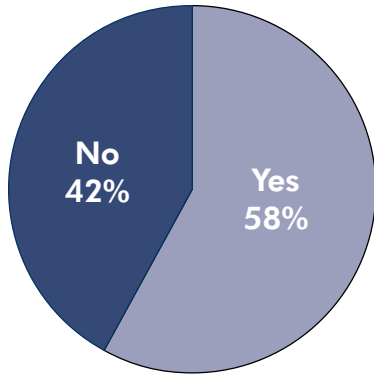
Uncertainty about stock as executive compensation seems to have affected trends in stock as director compensation. The majority (51 percent) of *Fortune* boards require directors to own shares of company stock, approximately the same percentage reported last year (53 percent). Directors are divided as to the form of stock, with stock grants preferred by 44 percent and stock options cited by 41 percent.

The percentage of directors believing the majority of a director's compensation should be in stock decreased from 66 percent last year to 58 percent this year.

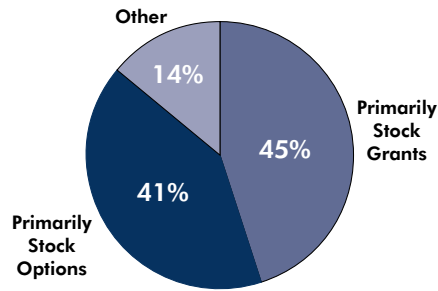
Is there a requirement that directors own shares of company stock?



Do you think the majority of a director's compensation should be in stock?

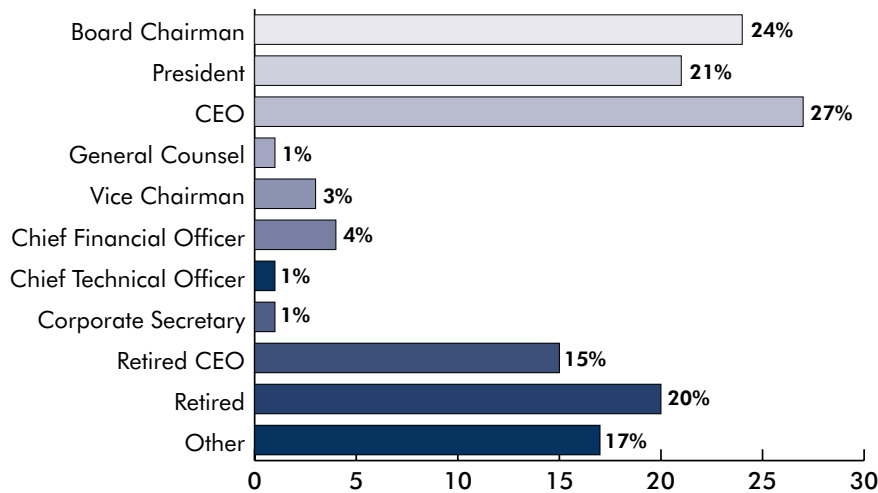


If YES: What form of stock?



Survey Demographics

What is your title or status with your primary company?



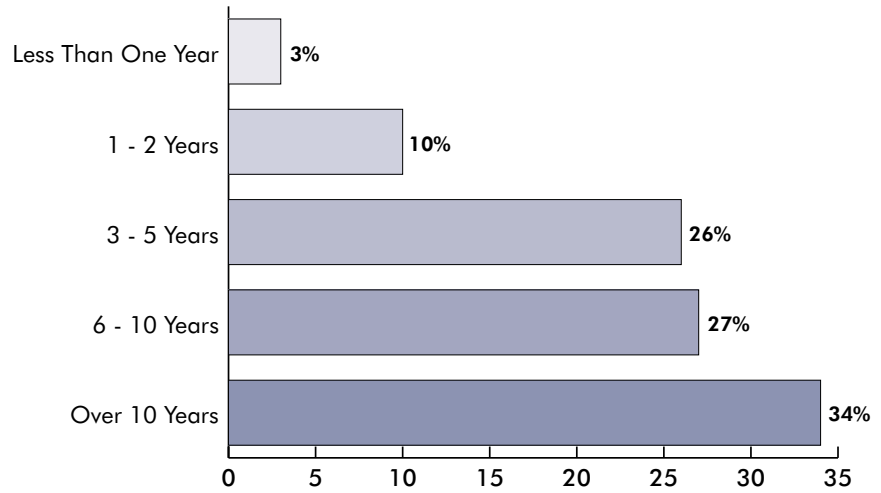
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Are you responding as an Inside or outside director?

Inside	25%
Outside	75%

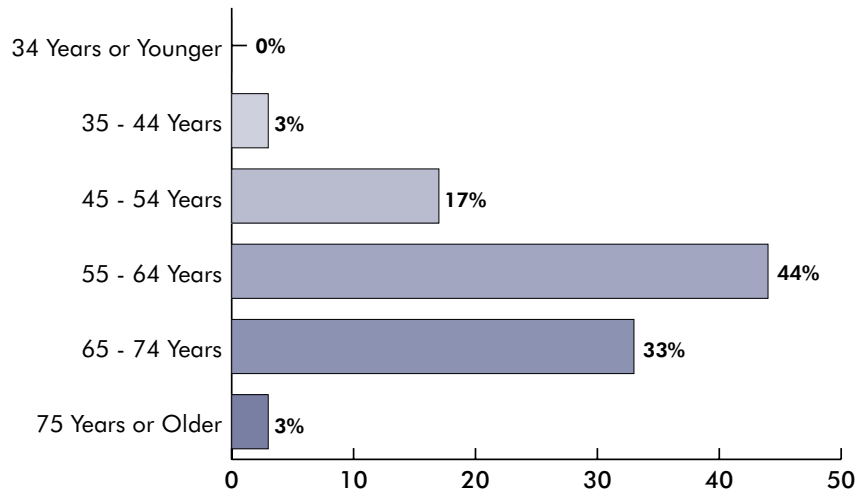
How long have you served on this board?



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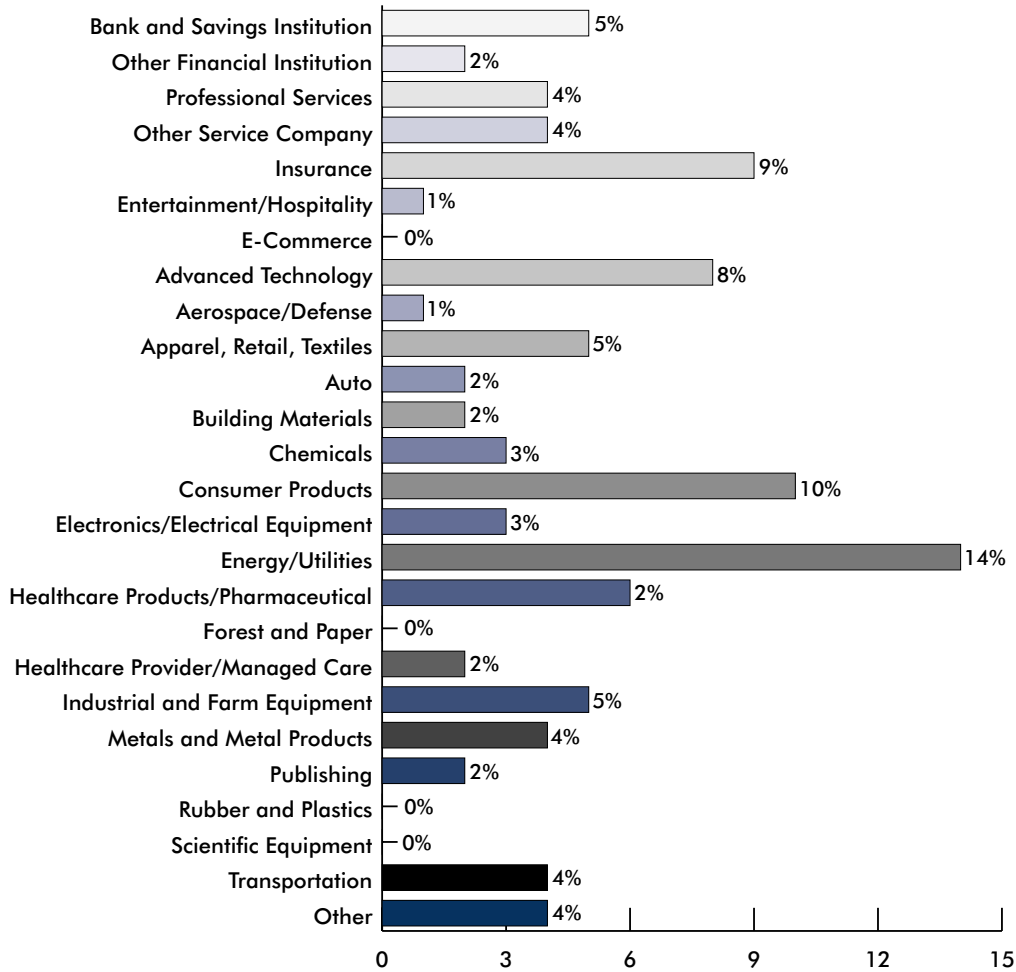
Your age:



\$18,677 million

is the average
revenue of companies
of respondents.

Which of the following best describes your company:



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Korn/Ferry International North American Board Services Practice

- Korn/Ferry is the only executive search firm with a dedicated team of professionals 100% devoted to conducting Board of Director searches on a global basis. The North American team focuses its efforts on companies located throughout the United States and Canada.
- We tailor our approach to the specific governance needs of each client. As governance issues continue to change, we are very sensitive to the impact these have on our client base.
- We have developed the "Next Generation Director" product, which identifies the best and brightest young executives who will fill tomorrow's boardroom ranks. This is a proprietary product established through a joint venture with *Corporate Board Member* magazine.
- Korn/Ferry has one of the most recognizable brands in the world. At the senior-level, successful executives want to be known to us.
- We conduct over 200 Board searches each year with a significant percentage of those resulting in diversity placements.
- We have the highest success rate in the industry and are with you every step of the way throughout the search process.

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About Korn/Ferry International

Korn/Ferry International (NYSE:KFY), with over 70 offices in 36 countries, is the world's leading provider of executive human capital solutions. Based in Los Angeles, the firm works closely with clients worldwide to deliver customized executive search, management assessment and mid-level search services, including the identification of CEOs, COOs, CFOs, board members and other senior-level executives; the formal evaluation of senior management teams; and the recruitment of middle managers through its Futurestep subsidiary.

For more information, visit the Korn/Ferry International web site at www.kornferry.com or the Futurestep web site at www.futurestep.com.

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For additional copies of this study, please call the Global Marketing Department at (310) 552-1834.

For more information on our Global Board Services practice please contact Charles H. King at (212) 973-5850.

Korn/Ferry International Worldwide Offices

The Americas	Newport Beach	Bombay	Budapest
Atlanta	949-851-1834	91-22-282-6689	36-1-346-0600
404-577-7542	Philadelphia	Hong Kong	Copenhagen
Bogotá	215-496-6666	852-2971-2700	45-3916-3600
57-1-629-2301	Princeton	Jakarta	Frankfurt/Königstein
Boston	609-452-8848	62-21-573-9933	49-6174-2905-0
617-345-0200	Quito*	Kuala Lumpur	Geneva
Buenos Aires	5932-2986-562	603-2078-1655	41-22-310-2071
54-11-4114-0000	Rio de Janeiro	Melbourne	Göteborg
Calgary	55-21-2518-1380	613-9654-4588	46-31-13-4710
403-269-3277	San Francisco	New Delhi	Helsinki
Caracas	415-956-1834	91-124-6358866	358-9-61-22-560
58-212-285-0067	Santiago	Seoul	Istanbul**
Chicago	562-233-4155	82-2-399-7475	90-212-231-3949
312-466-1834	São Paulo	Shanghai	London
Dallas	5511-5181-9200	86-21-6256-7333	44-20-7312-3100
214-954-1834	Seattle	Singapore	Luxembourg
Denver	206-447-1834	65-224-3111	35-2-46-43-42-1
303-542-1880	Silicon Valley	Sydney	Madrid
Houston	650-632-1834	612-9006-3400	34-91-701-43-80
713-651-1834	Stamford	Tokyo	Milan
Lima	203-359-3350	81-3-3560-1400	39-02-80600-1
51-1-221-4202	Toronto	Wellington	Moscow**
Los Angeles	416-365-1841	64-4-460-4900	7-503-956-4387
310-552-1834	Tysons Corner	Europe	Oslo
Mexico City**	703-761-7020	Amsterdam	47-22-82-39-00
52-55-5201-5400	Vancouver	31-20-799-9000	Paris
Miami	604-684-1834	Athens	33-1-45-61-8686
305-377-4121	Washington, D.C.	301-722-8000	Rome
Minneapolis	202-822-9444	Barcelona	39-06-80687-090
612-333-1834	Asia/Pacific	34-93-2179131	Stockholm
Monterrey**	Auckland*	Birmingham	46-8-611-5015
52-81-8220-5959	64-9-309-4900	44-121-782-2492	Vienna
Montreal	Bangkok	Brussels	43-1-531-03-0
514-397-9655	662-636-1466	32-2-640-3240	Warsaw
New York	Beijing	Bucharest*	48-22-622-28-29
212-687-1834	8610-6505-2989	40-21-230-4567	Zurich
			41-56-418-11-11

* Satellite offices

** Affiliate offices

List as of November, 2002