

“What Directors Think”

A Korn/Ferry International and *Corporate Board Magazine* Study

In early 2002, Korn/Ferry International and *Corporate Board Member* magazine surveyed directors as to their opinions, experiences and board practices. The following are the results from the 2041 surveys returned.

Results

Question 1: What is your current board size - Inside/Outside directors?

Question 2: What board size do you think is optimal - Inside/Outside directors?

	Current Board Size	Optimal Board Size
Inside	2.8	2.3
Outside	7.9	7.6

Question 3: Does the former CEO sit on the board?

Question 4: Should the former CEO sit on the board?

	Does the CEO sit on the board?	Should the CEO sit on the board?
Yes	31.3%	25.9%
No	68.7%	74.1%

Question 5: Does the board typically hold regular executive sessions without the CEO during board meetings?

Question 6: Should the board typically hold regular executive sessions without the CEO during board meetings?

	Regular executive sessions without the CEO	Should the board regularly hold executive sessions without the CEO?
Yes	44.8%	71.3%
No	55.2%	28.7%

Question 7a: Is there a limit to the number of other boards on which the CEO and board members may serve as outside directors? CEO/Outside Directors.

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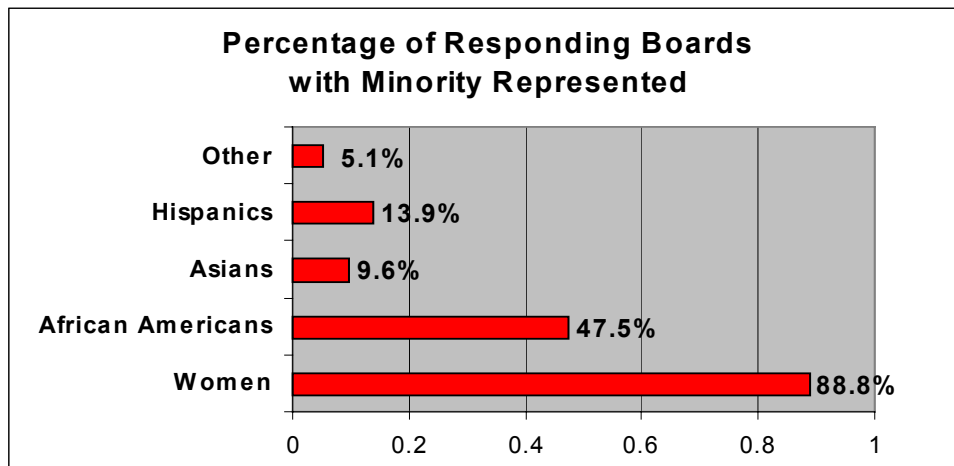
Question 7b: Should there be? CEO/Outside Directors. IF YES, How many?

Is there a limit to the number of other boards?	Should there be a limit?	IF YES, How many (average)
CEO – Yes 35.1%	81.80%	CEO 2.0 Boards
CEO – No 64.9%	18.20%	Outside Dir. 3.5 Boards
Outside Dir. – Yes 12.9%	53.7%	
Outside Dir. – No 87.1%	46.3%	

Question 8: Do you have any of the following minorities currently represented on your board?

Percentage of responding boards with the minority represented

Women	88.8%
African Americans	47.5%
Asians	9.6%
Hispanics	13.9%
Other	5.1%



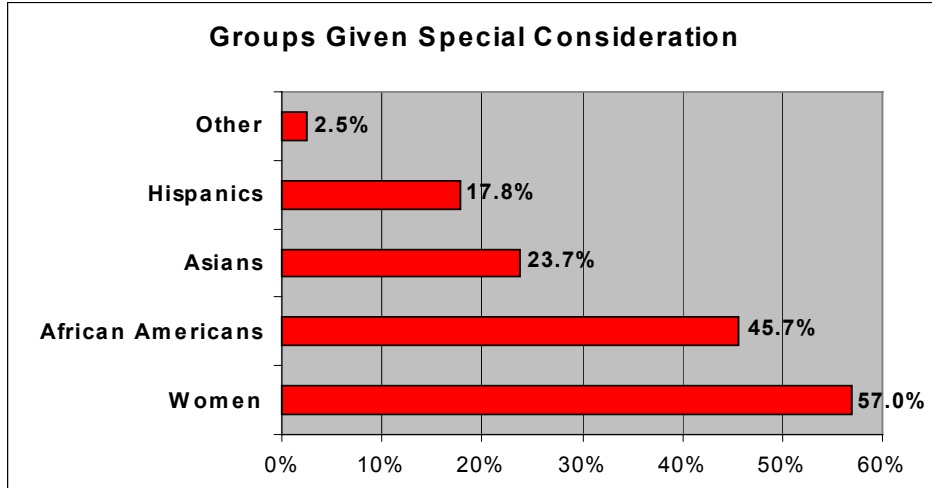
Question 9a: Would you like to see your board become more diverse by increasing its minority representation?

Yes	58.9%
No	41.1%

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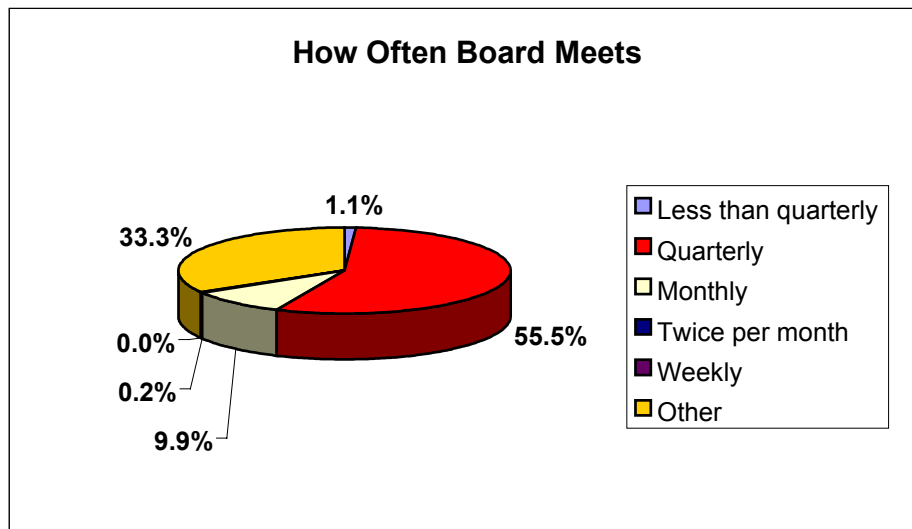
Question 9b: IF YES: Are there any groups to which you are giving special consideration?

Women	57.0%
African Americans	45.7%
Asians	23.7%
Hispanics	17.8%
Other	2.5%



Question 10: On average, how often does your full board meet?

Less than quarterly	1.1%
Quarterly	55.5%
Monthly	9.9%
Twice per month	0.2%
Weekly	0.0%
Other	33.3%



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Question 11: What non-members sit in on regular meetings?

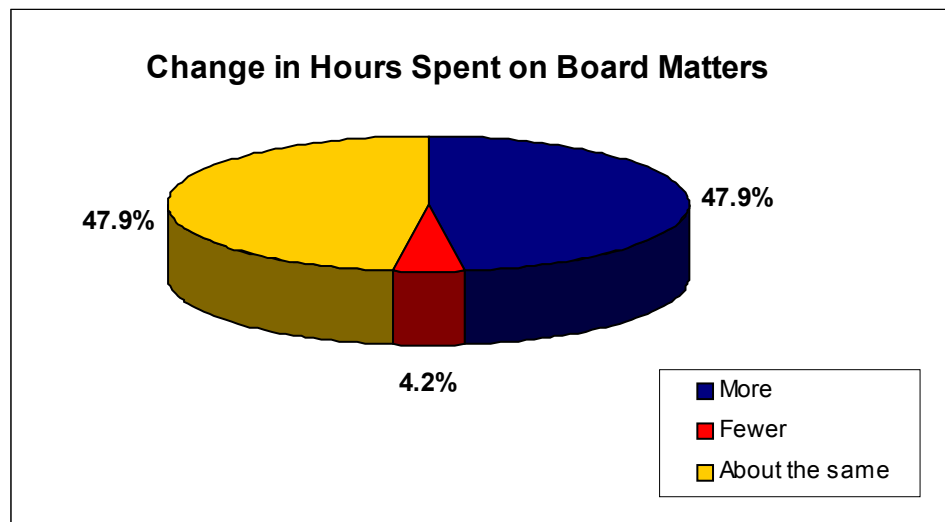
CFO	82.2%
Legal Counsel	72.6%
Corporate Secretary	58.7%
Investor Relations Officer	7.9%
CIO/CTO	9.0%
Chief Marketing Officer	12.4%
Other	29.3%
None	3.4%

Question 12: How many hours per month do you estimate that you spend on board matters for this company, including review and preparation time, meeting attendance, and travel?

Average = 14.1

Question 13: Compared to last year, how many hours are you spending per month on board matters?

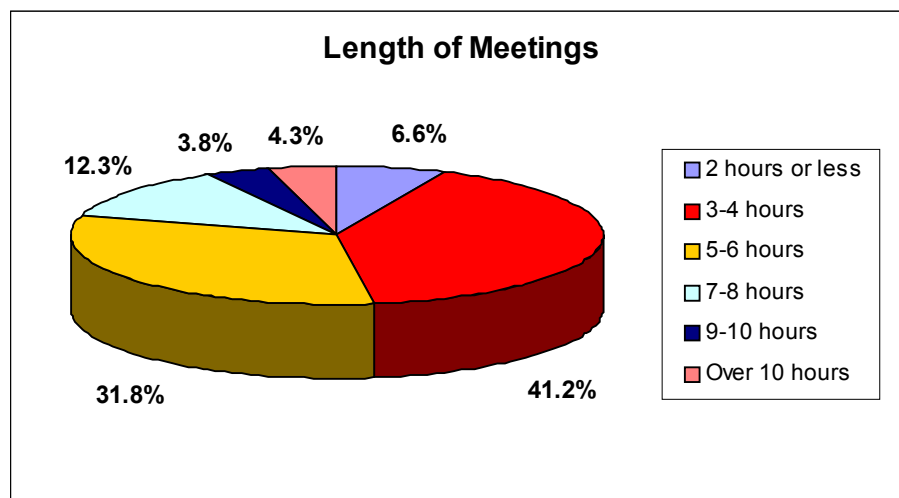
More	47.9%
Fewer	4.2%
About the same	47.9%



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Question 14: How long are meetings typically?

2 hours or less	6.6%
3-4 hours	41.2%
5-6 hours	31.8%
7-8 hours	12.3%
9-10 hours	3.8%
Over 10 hours	4.3%



Question 15: If your chairman is also the CEO, do you have an elected or appointed lead director among the outside directors who will preside at executive sessions and evaluate the CEO?

Question 16: Should a board that has an inside director as a chairman, elect or appoint an outside director as the lead director?

	Board has elected / appointed lead director	Should the board have lead director?
Yes	36.7%	59.3%
No	63.3%	40.7%

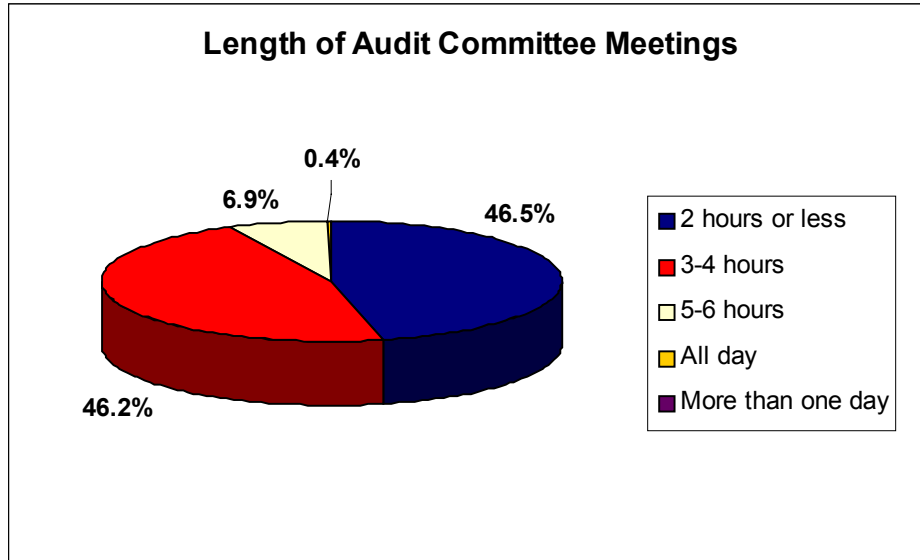
Question 17: Are you on the audit committee?

Yes	47.8%
No	52.2%

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Question 18: How long do audit committee meetings last?

2 hours or less	46.5%
3-4 hours	46.2%
5-6 hours	6.9%
All day	0.4%
More than one day	0.0%



Question 19: Does your board typically have board members who attend meetings electronically (i.e. Teleconference, video conference, etc.)

Yes	25.4%
No	74.6%

Question 20: Has your board ever held a virtual board meeting via the Internet?

Yes	1.9%
No	98.1%

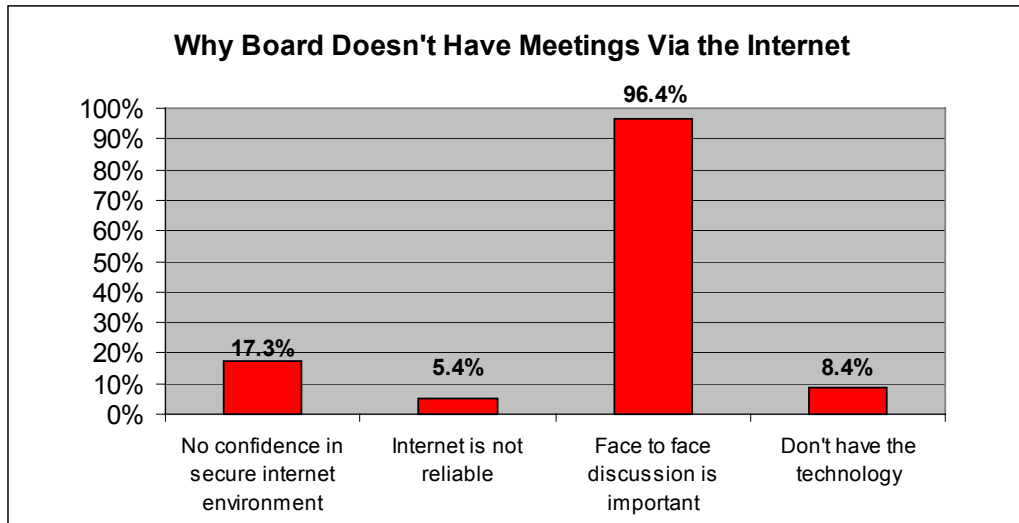
Question 21a: Would you feel comfortable holding a board meeting in a secure Internet environment?

Yes	36.2%
No	63.8%

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Question 21b: IF NOT: Why not?

No confidence in secure internet environment	17.3%
Internet is not reliable	5.4%
Face to face discussion is important	96.4%
Don't have the technology	8.4%



Question 22: Have you ever turned down a board position because you felt your risk was too great?

Yes, but not in the past 12 months	35.4%
Yes, in the past 12 months	12.7%
No	51.9%

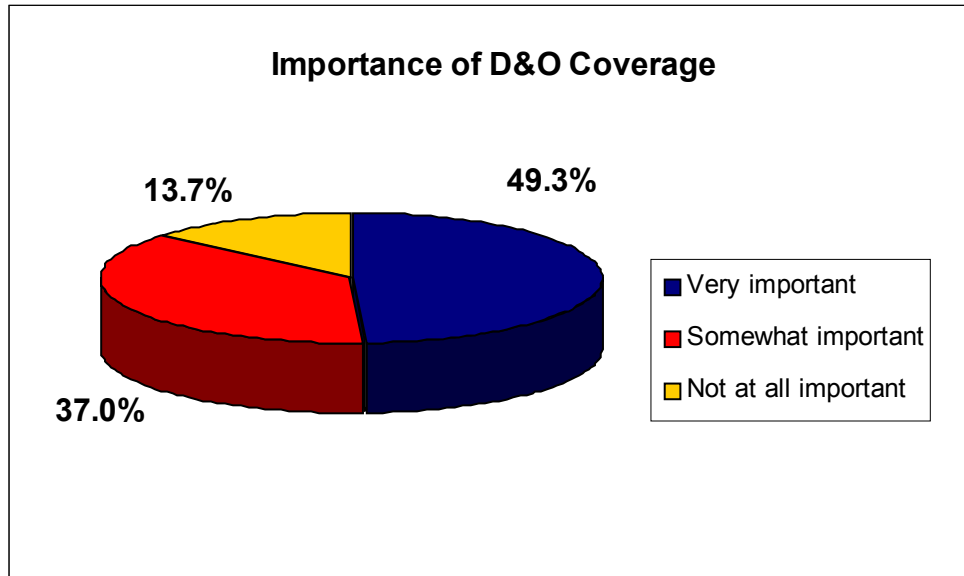
Question 23: Do you feel you adequately understood the D&O coverage of this board before you accepted the position?

Yes	86.9%
No	13.1%

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Question 24: How important was the D&O coverage in your decision to serve on this board?

Very important	49.3%
Somewhat important	37.0%
Not at all important	13.7%

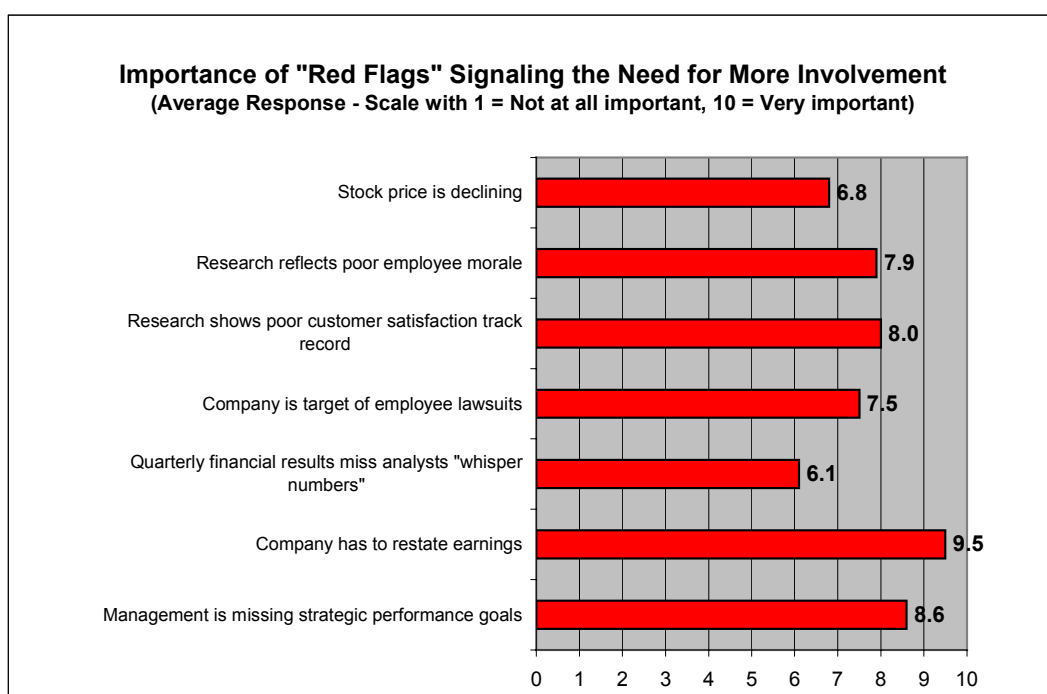


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Question 25: How important is each of the following "red flags" in signaling a director to step up his or her board involvement? (Scale of 1-10, 1 = Not important, 10 = Very important)

Average Response

Management is missing strategic performance goals	8.6
Company has to restate earnings	9.5
Quarterly financial results miss analysts "whisper numbers"	6.1
Company is target of employee lawsuits	7.5
Research shows poor customer satisfaction track record	8.0
Research reflects poor employee morale	7.9
Stock price is declining	6.8



Question 26: Do members of your board attend conferences or seminars to educate themselves on governance or other issues facing the corporation?

Yes	39.5%
No	60.5%

Question 27: Does your company do enough to keep board members updated on the following:

	Yes	No
Industry in general	88.1%	11.9%
Company's competition	84.0%	16.0%
Technology	68.3%	31.7%

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Question 28: How difficult is each of the following director responsibilities?
(Scale of 1 - 10, with 1 = Not at all difficult and 10 = Very difficult)

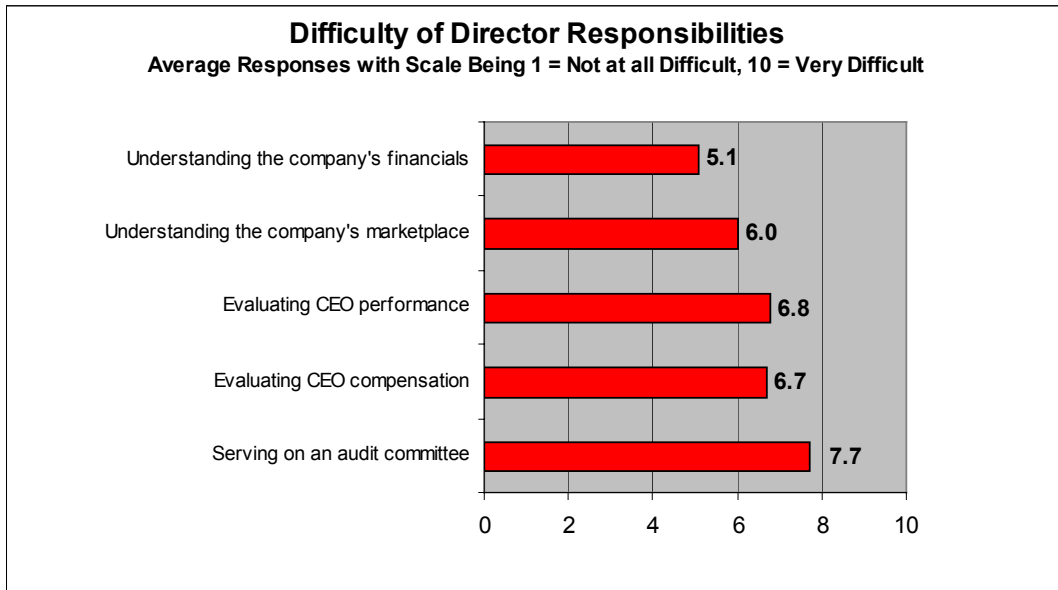
Average Response

Serving on an audit committee	7.7
Evaluating CEO compensation	6.7
Evaluating CEO performance	6.8
Understanding the company's marketplace	6.0
Understanding the company's financials	5.1

Question 29: How would you estimate the effectiveness of your board on each of the following dimensions?

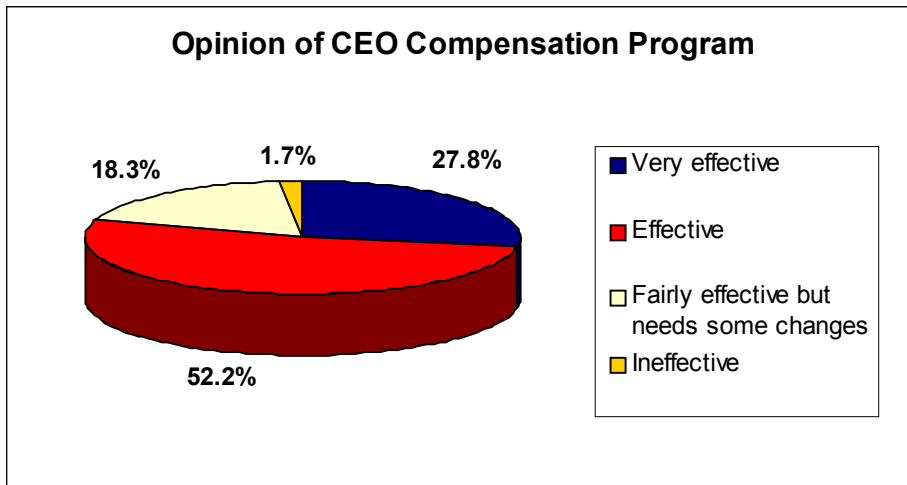
	Very Ineffective	Ineffective	Somewhat Effective	Effective	Very Effective
Identifying possible threats or opportunities critical to the future of the company	1.3%	4.8%	33.8%	49.3%	10.8%
Shaping long-term strategy	1.2%	8.3%	37.6%	42.7%	10.2%
Monitoring and evaluating strategic implications	1.0%	6.1%	37.4%	47.1%	8.4%
Planning for top management succession	3.0%	15.8%	36.3%	31.7%	13.2%
Representing the performance of top management	0.8%	1.5%	9.0%	45.6%	43.1%
Evaluating the performance of top management	0.9%	5.3%	23.6%	53.0%	17.2%
Advising during major decisions such as mergers or acquisitions	1.0%	3.5%	16.2%	45.6%	33.7%
Meeting the needs of other stakeholders (e.g., employees, community)	1.0%	6.8%	35.9%	44.8%	11.5%

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Question 30: How do you feel about your company's CEO compensation program?

Very effective	27.8%
Effective	52.2%
Fairly effective but needs some changes	18.3%
Ineffective	1.7%



Question 31a: Is there a requirement that directors own shares of company stock?

Yes	48.9%
No	51.1%

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Question 31b: IF YES: What is the requirement?

Average number of shares: 5292

Question 32a: Do you think the majority of a director's compensation should be in stock?

Yes	54.6%
No	45.4%

Question 32b: IF YES: What form of stock?

Primarily stock grants	41.6%
Primarily stock options	45.6%
Other	12.8%

Question 33: Should audit committee chairs be paid more than chairs of other committees?

Yes	54.1%
No	45.9%

Question 34: Does the board have a management succession committee or process?

Yes	54.2%
No	45.8%

Question 35a: In the last 3 years, has your company undergone a management succession process?

Yes	51.4%
No	48.6%

Question 35b: IF YES, In choosing the CEO's successor, how was the decision divided between the retiring CEO and the board?

%CEO	36.7%
%Board	63.2%

Question 36: Does your board have a formal committee that reviews corporate governance processes and board operations?

Yes	52.9%
No	47.1%

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Question 37: Does the board have written guidelines on corporate governance?

Yes	67.4%
No	32.6%

Question 38: Do you believe written governance guidelines are helpful to a board?

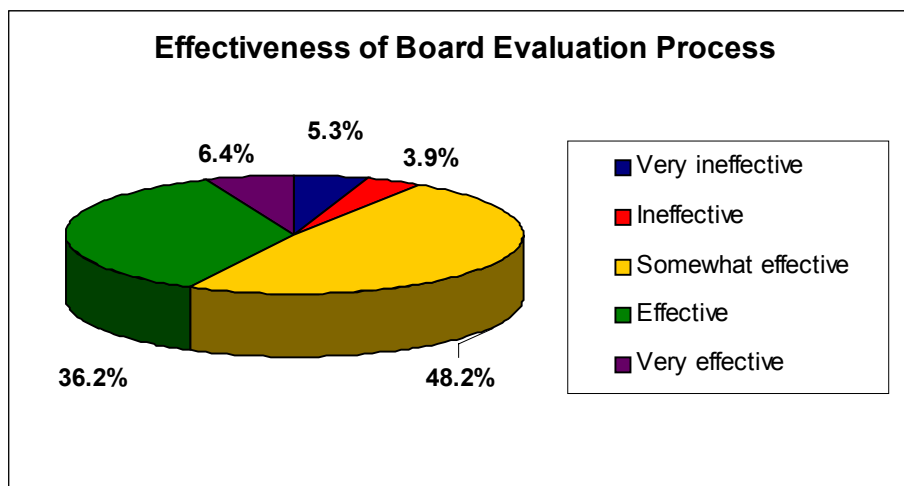
Yes	88.8%
No	11.2%

Question 39a: Is the entire board's performance formally evaluated on a regular basis?

Yes	33.3%
No	66.7%

Question 39b: IF YES: How effective is this evaluation?

Very ineffective	5.3%
Ineffective	3.9%
Somewhat effective	48.2%
Effective	36.2%
Very effective	6.4%



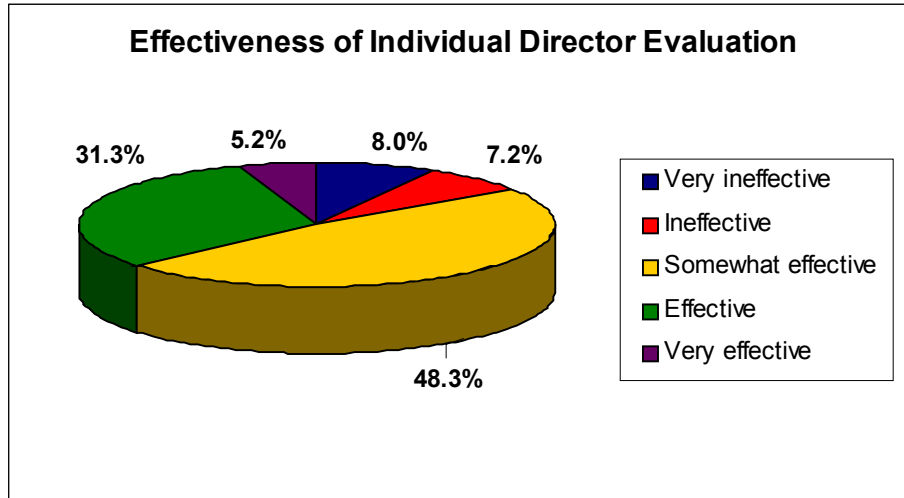
Question 40a: Does your board evaluate individual directors on a regular basis?

Yes	18.8%
No	81.2%

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Question 40b: IF YES: How effective is this evaluation of individual directors?

Very ineffective	8.0%
Ineffective	7.2%
Somewhat effective	48.3%
Effective	31.3%
Very effective	5.2%



Question 41: Should individual directors be evaluated regularly as to their performance?

Yes	75.8%
No	24.2%

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Question 42: How important is each of the following factors in determining "good governance?"
(Scale of 1 - 10, 1 = Not at all important, 10 = Very important)

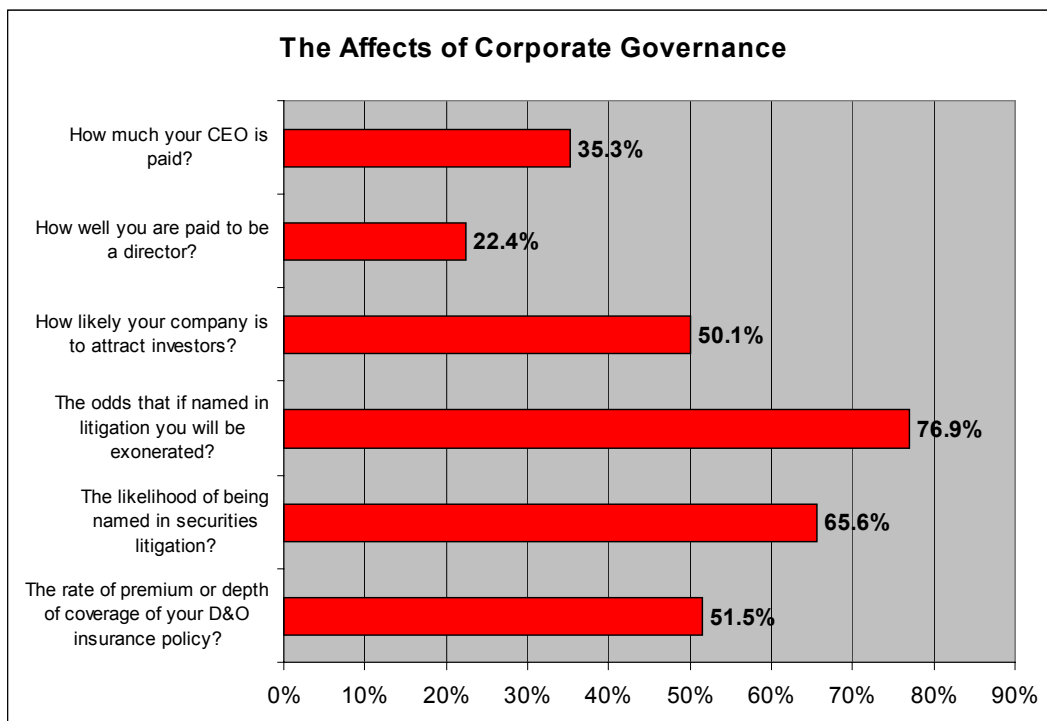
Average Response

The board is made up of mostly outside independent directors	8.7
An outside director serves as chairman of the board	4.6
There is a limit to the number of boards a CEO and director can serve on	6.2
The board holds regular executive sessions without the CEO	6.8
Both board and director performance is evaluated	6.8
The board endorses that directors receive additional education	5.8
The board or a committee conducts a formal CEO performance review	8.4
A formal management succession process is in place	8.1
A board committee develops and reviews governance guidelines	7.3
There is a mandatory retirement age	6.4
An independent nominating committee recruits new directors	7.0
There is an elected lead director when an inside chairman is present	5.7
Directors must purchase X% of stock	5.4
A charter limits the board to a manageable size	7.3
The board supports free market activity without charter restrictions	5.0
The board supports term limits for directors	4.3

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Question 43: Do you believe good corporate governance affects any of the following:

The rate of premium or depth of coverage of your D&O insurance policy?	51.5%
The likelihood of being named in securities litigation?	65.6%
The odds that if named in litigation you will be exonerated?	76.9%
How likely your company is to attract investors?	50.1%
How well you are paid to be a director?	22.4%
How much your CEO is paid?	35.3%



Question 44: Does your board have any reservations about bringing in a new director with no previous board experience?

Yes	31.9%
No	68.1%

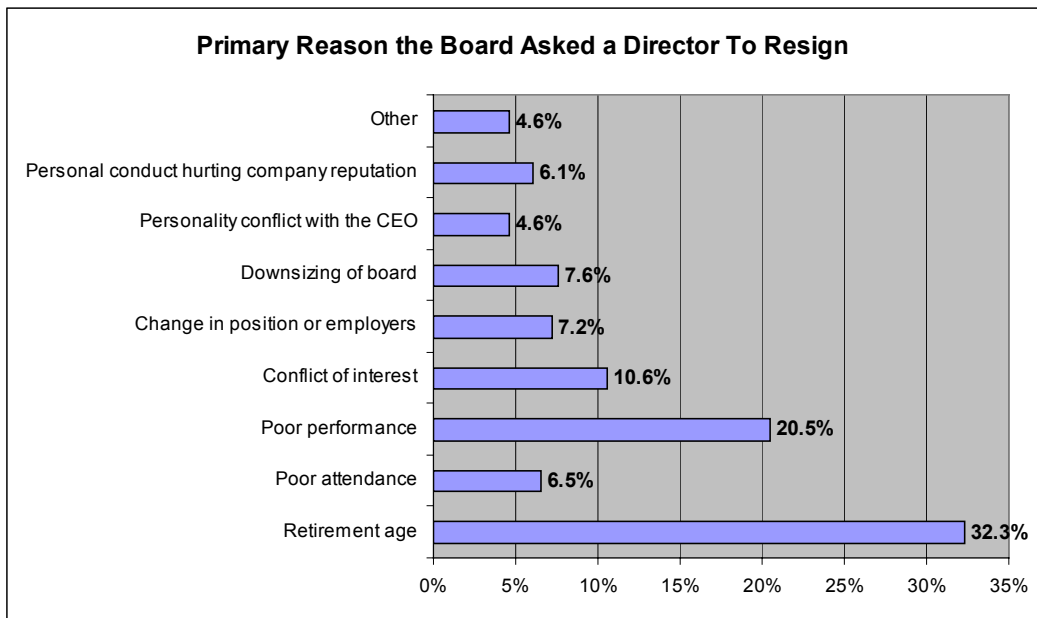
Question 45a: Has your company ever asked a director to resign or not stand for re-election?

Yes	63.0%
No	37.0%

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Question 45b: IF YES: What was the primary reason?

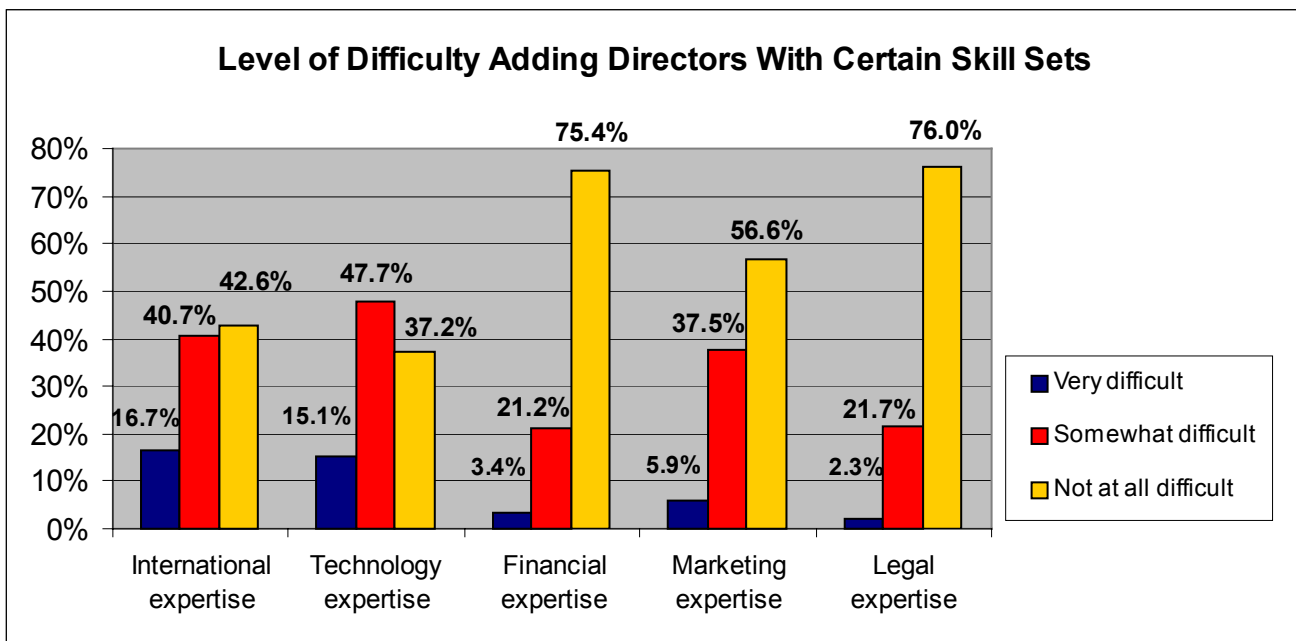
Retirement age	32.3%
Poor attendance	6.5%
Poor performance	20.5%
Conflict of interest	10.6%
Change in position or employers	7.2%
Downsizing of board	7.6%
Personality conflict with the CEO	4.6%
Personal conduct hurting company reputation	6.1%
Other	4.6%



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Question 46: How difficult has it been for your board to add directors with the following skill sets?

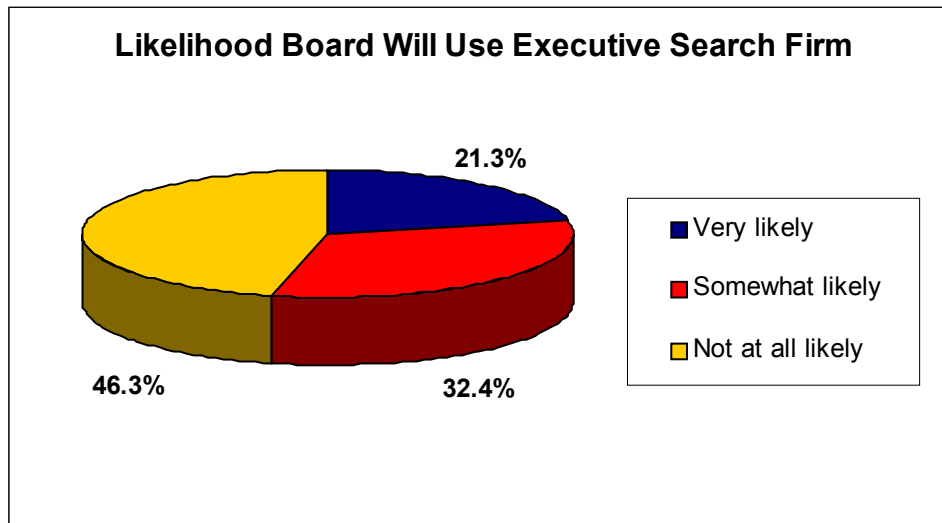
	Very Difficult	Somewhat Difficult	Not At All Difficult
International expertise	16.7%	40.7%	42.6%
Technology expertise	15.1%	47.7%	37.2%
Financial expertise	3.4%	21.2%	75.4%
Marketing expertise	5.9%	37.5%	56.6%
Legal expertise	2.3%	21.7%	76.0%



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Question 47: How likely is your board to use an executive search firm to seek out highly qualified outside directors?

Very likely	21.3%
Somewhat likely	32.4%
Not at all likely	46.3%



Question 48: Is there a director on your board you feel should be replaced?

Yes	31.7%
No	68.3%

Question 49: Had your board and management team developed or discussed a crisis management plan prior to September 11th?

Yes	44.9%
No	55.1%

Question 50: Has your board taken any action to address crisis management since the tragedy of September 11th?

Yes	44.0%
No	56.0%

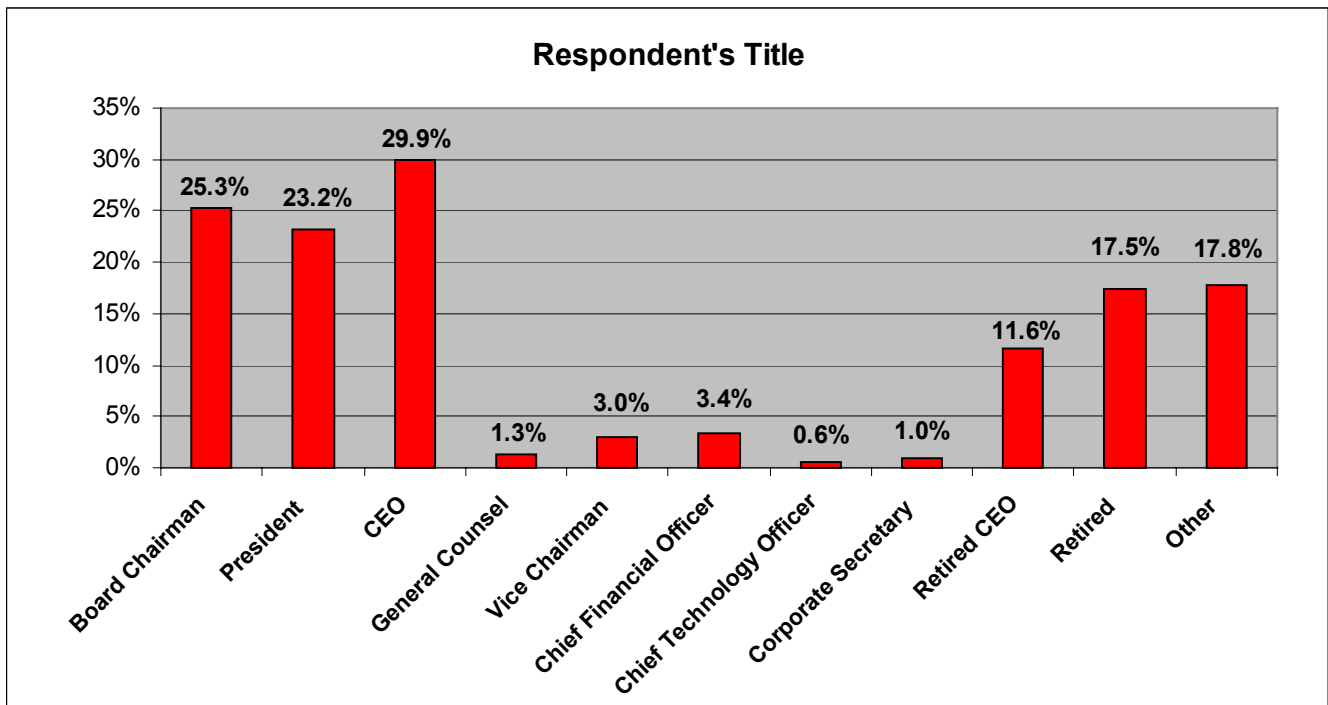
Question 51: Are you responding as an inside or outside director?

Inside Director	26.7%
Outside Director	73.3%

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Question 52: What is your title or status with your primary company?

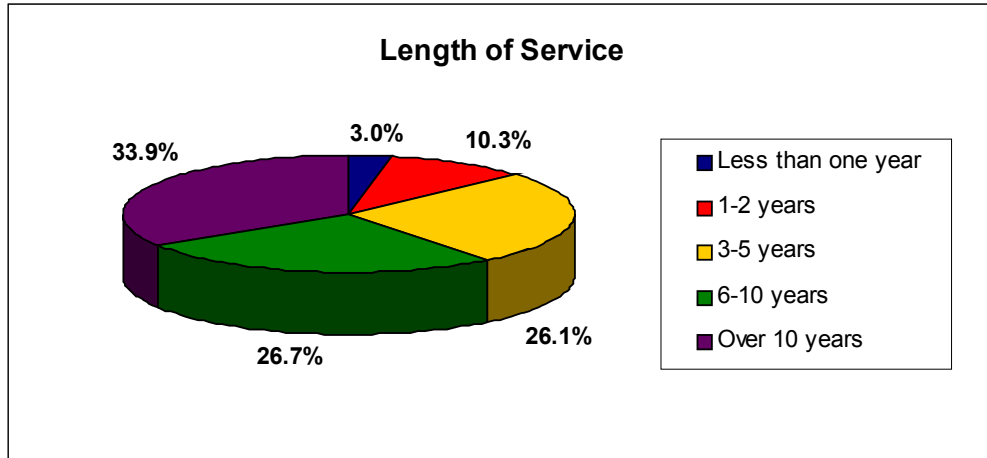
Board Chairman	25.3%
President	23.2%
CEO	29.9%
General Counsel	1.3%
Vice Chairman	3.0%
Chief Financial Officer	3.4%
Chief Technology Officer	0.6%
Corporate Secretary	1.0%
Retired CEO	11.6%
Retired	17.5%
Other	17.8%



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Question 53: How long have you served on this board?

Less than one year	3.0%
1-2 years	10.3%
3-5 years	26.1%
6-10 years	26.7%
Over 10 years	33.9%



Question 54: You are: Male or Female

Male	91.5%
Female	8.5%

Question 55: Your age is:

34 years or younger	0.1%
35 - 44 years	3.9%
45 - 54 years	20.4%
55 - 64 years	42.1%
65 - 74 years	30.3%
75 years or older	3.2%

Question 56: What are the annual revenues for your company?

Average Response: \$4309.30M

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Question 57: Which of the following best describes your company:

Bank and savings institution	8.1%
Other financial institutions	3.9%
Professional services	5.1%
Other service company	4.5%
Insurance	6.4%
Entertainment/Hospitality	2.6%
E-commerce	0.4%
Advanced technology	8.8%
Aerospace/Defense	1.9%
Apparel, retail, textiles	5.1%
Automotive	1.3%
Building materials	3.0%
Chemicals	2.0%
Consumer products	8.6%
Electronics/Electrical equipment	3.0%
Energy/Utilities	10.5%
Healthcare products/Pharmaceuticals	4.5%
Forest and paper products	0.4%
Healthcare provider/managed care	2.0%
Industrial and farm equipment	4.0%
Metals and metal products	3.2%
Publishing	1.0%
Rubber and plastics	1.0%
Scientific equipment	0.0%
Transportation	4.0%
Other	4.7%

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