

Are Boards Effective? Here's What Our Latest Research Says

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Steve Odland: Welcome to C-Suite Perspectives, a signature series by The Conference Board. I'm Steve Odland from The Conference Board and the host of this podcast series, and in today's conversation, we're going to discuss the latest joint research from PwC and The Conference Board on board of director effectiveness.

Joining me today is Arielle Berlin, a director in the Governance Insights Center at PwC. Welcome, Arielle.

Arielle Berlin: Thanks so much for having me.

Steve Odland: Arielle, tell us a little bit about PwC's Governance Insights Center, cause not all of our listeners may be familiar with it.

Arielle Berlin: Sure, I'd be happy to. The Governance Insight Center is a value-add service for PwC's clients and a trusted thought leader in the governance community.

Steve Odland: That sounds that sounds like legal boilerplate, Arielle.

Arielle Berlin: Right, does it? Maybe, but I'll tell you, the Center was formed as a way to leverage the firm's broad reach into boardrooms of companies in every industry across the country. And over time, our team's mandate has expanded to all things related to corporate governance and the board. So we provide content, education sessions, thought leadership, director peer exchanges, and events, and all this is designed to help directors navigate what's going on in the boardroom and in the evolving business environment.

Steve Odland: Yeah, and PwC is just an acknowledged expert here. Started in the audit industry, you do consulting, and experts in this area as well. And that's why we have partnered with you and done the fifth edition of the PwC-Conference Board annual study

of board effectiveness. Talk about some of the survey highlights and key factors contributing to board effectiveness.

Arielle Berlin: Sure. So as you mentioned, yeah, this is the fifth year we've done the report, and each year we partner together to survey management's perception of board performance. So this past year, we had 520 executives from US public companies participate in the survey. And this represented different senior executive roles, as well as a dozen industries, mostly from companies that were a billion or more in revenue. And the topics we surveyed are the key factors that we believe contribute to a board's effectiveness. So those are board refreshment, board composition, board roles and engagement, board time and attention, and top risks facing executives.

Steve Odland: And we have to point out, you said it, but make sure everybody understands that this is a survey of the C-Suite—the CEO and her direct reports, essentially—and their impression of their boards. And that can cut both ways. Certainly, many of them are in the boardroom, but sometimes they don't have experience on their own in the boardroom. You have to temper a little bit of this with their experience, and we do in our report. So that's all good.

If you look at the survey results of these C-Suite members, they think their boards, on the whole, continue to perform pretty well, right?

Arielle Berlin: Yes, they do.

Steve Odland: Yeah. And they had positive grades on corporate strategy and understanding of key business risks. Talk about some of the top-line results here. What are boards doing well in the eyes of management, and where are some areas where they need to do something different?

Arielle Berlin: Yeah, I'd love to get into that, but overall we saw that 35% of executives rated their board's overall effectiveness as "excellent" or "good." Now, that sounds low, but this year, we saw a nice increase. Last year, only 30% of executives rated "excellent" or "good."

And I just want to add, we saw that executives' trust in their boards gained momentum in other areas. 88% of executives trusted their boards to effectively engage with shareholders, and 70% said their boards could successfully guide their company through a crisis. So these numbers have actually gone up from last year, so we're really happy with that.

Steve Odland: Yeah, those are really high numbers. And so it sounds like the boards are doing what the management members think they should do. There are big evolutions in what's going on from a risk standpoint, geopolitical situations, AI. These are really big topic areas, and for these management members to think that their boards are on top of all of that is really a good sign, I think, for corporate governance in total.

Arielle Berlin: Yes, I would agree. I think it's fair to say that both executives and boards are facing unprecedented uncertainty right now, though, and boards are grappling with many areas of oversight and emerging risks. So as you said, now, more than ever, boards need to make sure that they know what the company's top risks are.

Steve Odland: Yeah, and that's a joint exercise between management and boards. And it's usually guided by an audit committee, but it's also expanded to the other committees, as well. They develop heat maps and understand contingency planning and all of that. And that's a really important exercise, a fiduciary exercise on the part of the board.

It used to be that gray swan events, or black swan events, I should say, are once-in-a-lifetime deal. But we've had 17 black swan events in the last 40 years. And so it's every couple of years, there's these unforecastable things that happen, and you really have to stay on top of the ever-changing environment and be prepared. Even if you can't forecast it, you can talk about contingency plans for the unforecastable, right?

Arielle Berlin: Correct. And boards should be having regular discussions with management on top risks, and top risks should, especially now, be built into every board and committee agenda. And boards should make sure that these top risks are being overseen by either the full board or a committee of the board. And I think directors should also be asking executives what's keeping them up at night and be having frank conversations. And I think that this will lead to greater alignment between the two.

Steve Odland: Yeah, and it's a balancing act on the part of the board, because the board is not accountable for running the company, management is. And yet in order to oversee that strategy and the execution, boards need to understand enough about running the details of a company that they can assess it and they can provide advice. But there is this kind of a balance that board and management need to work out with each other. And it varies by industry and by company, and it varies depending on what's happening in the external environment.

Arielle Berlin: I think that's true. And I think, as boards continue to have additional areas of oversight and emerging topics, that balance is delicate. In fact, one of the findings of our survey this year was that 32% of executives said that their boards overstepped the boundaries of their role, and that was actually double from the previous year.

And I think it goes to what you were just talking about. That perhaps, as board members try to grapple with additional areas of oversight, they're asking more questions, they're trying to wrap their heads around all of it, and that may be perceived by management as overstepping.

Steve Odland: Yeah, and it's hard on the part of a board because the board, they want to be helpful, they want to offer advice, but at the same time, it's not their accountability to run the company. And so sometimes their advice kind of devolves into tactical stuff that drives management teams nuts. But it's a delicate balancing act, and it depends on how much stress a company is under.

Arielle Berlin: Yes. Yes. And there, it may seem to management that executives are pushing back or overstepping.

Steve Odland: Yeah, exactly. One of the things was the rating on the board's overall effectiveness, and I think the number was only 35% said it was "excellent" or "good." What are the common disconnects besides this overstepping that we saw in the survey?

Arielle Berlin: Yeah, so it's always surprising that the ratings for "excellent" or "good" are so low among executives, even though it went up this year. But I do want to point out that there were some big discrepancies, depending on the executive role, for this particular survey question.

This year, 72% of CFOs now rate their boards as "excellent" or "good," but 40% of CIOs rated their boards effectiveness as "poor." And I think a large part of the disparity may be about a knowledge gap that exists between board members and, say, technology leaders. Many CIOs may feel that the board lacks a deep understanding of areas such as AI or cyber.

So one thing, when we talk about a disconnect, CEOs and CFOs spend the most time with boards. They have the most visibility into board dynamics and also probably have the strongest grasp of a board's role and responsibility. So I would say that may be leading to some of this disconnect. Maybe having executives like the CIO spend more time with the board and have a regular cadence of interaction can help foster collaboration and alignment. And I think that could go a long way toward bridging some of the gap that we're talking about here.

Steve Odland: So yeah, it's a really important point that you're making. Because this is what I was trying to say before, that there are certain positions in the C-Suite that just have no experience as a board member themselves. Most CEOs and CFOs are on other boards and so therefore, they have the view from both sides of the table, if you will.

But CIOs are a different deal. Now, the technology environment, particularly with AI and everything that's happening there, is rapidly changing. And the CIO's frustration could come out of what they view as a lack of understanding by the board or maybe a lack of patience, even. Cause a lot of boards are saying, "Hey, where are we on the whole AI dimension, and are we keeping up, and are we investing enough?" And there's only so fast some companies can go. You have all of that tension, as well. So it's a delicate balancing act, because you don't want the boards running their business, right?

Arielle Berlin: Correct. Correct. But I think maybe there is a language gap, maybe they need to learn how to talk to each other better.

Steve Odland: Yeah. And a few years ago, you heard this cry for, we need to have technology experts who are on the board in order to balance that. But the problem with that is that, if you balkanize the board, by separating out and making somebody an expert

of each component on a board, they then have a higher probability of stepping on management toes and trying to run that area. And then not being a generalist board, where they're able to oversee strategy in total. So there are pros and cons to this.

Arielle Berlin: Yeah, that's interesting. That's true. And it makes me think of another finding that we saw this year. When we look at the survey results, the top three areas of expertise that executives said they wanted to add to their boards in the next 12 months were international, AI, and sustainability. And executives also said they want more time in the boardroom spent on AI and talent.

You're right. If you don't have an expert, we should think about what executives can do to help the board strengthen these skills.

Steve Odland: And this comes back to the chairman, the CEO, and the lead director in terms of driving the agenda and the ability of management to interact with the board and have sessions. So you hear some boards are doing casual sessions with the technology experts to be able to ask the questions and engage more deeply. Or it's a reception that is focused on that area, or it's a board education session on certain of these things.

But whatever the tool is, your point is the important one, which is you've got to have engagement here, because they need to understand each other.

Arielle Berlin: Exactly. So by engaging with the full C-Suite, that may help bridge some of that gap.

Steve Odland: Any other areas that came out of the survey as specific skills or knowledge areas that boards need to strengthen?

Arielle Berlin: We talked about international, AI, talent. Those were the big areas that executives were looking for.

Steve Odland: OK. And here again, the agenda needs to be built around those things. And talent is an interesting one because boards are accountable, of course, for CEO succession, and a lot has been written on that. And they, I think, for the most part, they're doing that fairly well. But succession plans and talent extend beyond that, particularly in a time where new skills are needed to drive innovation. And also, there are skill shortages in a lot of areas.

Arielle Berlin: It is interesting. Just an interesting percentage. 38% of executives in the survey think that talent management should be a priority for boards. That's up from 12% last year. That's a huge increase, especially when talent was not necessarily a typical topic that would make its way to a board agenda in the past.

Steve Odland: And that's an evolution, of course. The problem with all of this is, the boards of management can focus on all these things. And let's just say that everybody listens to what we're talking about. Every board changes, and they focus on these areas.

Well, the problem is that they're not going to be ready for the next thing that comes along, right? So there's always this evolution of what comes at them.

Arielle Berlin: True. Very true.

Steve Odland: Yeah. We're talking about the latest PwC-Conference Board work on board effectiveness. We're going to take a short break and be right back.

Welcome back to C-Suite Perspectives. I'm your host, Steve Odland, from The Conference Board, and I'm joined today by Arielle Berlin, director in the Governance Insights Center at PwC.

OK, Arielle, back to our survey. An overwhelming number of executives, C-Suite executives, I think the number was 93%, said that they wanted board refreshment, meaning they wanted a board member or two or whatever to be replaced. Talk about that.

Arielle Berlin: Yeah, so this year's results on board refreshment are a bit unsettling. 93%, yes, that is the correct percentage, and that's the highest percentage that we've received on this question. Our take on this is that the need for changes in board composition has become more evident and has actually accelerated over the last few years. With increasing risks and areas of board oversight, executives may be looking to replace long-tenure directors in the hopes of bringing on directors with skills in newer areas like AI or cyber.

And the reality is that tenures are long. Last year, the rate of turnover in the S&P 500 was about 8%. So we have very low turnover.

Steve Odland: Yeah, except that's on an average of 10 board members, that's like one a year. So that's, it's 10 to 12 years average tenure, which is not bad.

And I think the latest tenure is around six or seven, six years, maybe. And so this is another one where I completely understand management. I remember when I was running companies, there was always a person or two where you say, "Ah, it's time. It just, it's just time." And you can set an age, or you can set a tenure limit, but it doesn't cover everybody neatly. And this is where governance committees, lead directors need to be able to be strong enough to step in and go, "OK, it's time for this person, even if it was a short tenure, because it's just not working, or it's too long of tenure," or it's a different reason. And they need to have the flexibility to do that and the strength to do that.

Arielle Berlin: Strong board leadership is essential.

Steve Odland: Yeah, absolutely right. And some of the other factors, driving this is, sometimes it's just people who have retired and stopped learning, and so their skill sets and their information are dated or out of date. And so when you're dealing with some of the issues like the CIOs, or dealing with people who are five years or 10 years out of

date, that could be part of the problem. So there are probably some collinearity to these results.

Arielle Berlin: I don't think there's a one size fits all.

Steve Odland: Yeah, exactly right. So how important do you think individual director assessments are in promoting continuous improvement on boards?

Arielle Berlin: We think individual assessments are best practice. We encourage them, and we find them to be an effective tool. Look, these assessments can be used to help the board identify skill gaps and improve group dynamics. Also, to accelerate necessary changes in overall board composition, as we just discussed. Look, we still see boards a bit hesitant to do them. I think it can be helpful to try and reframe the purpose of the assessment, to think about assessments as routine tools that deliver a continuous cycle of feedback to help directors, to help the whole board, for that matter, to improve their performance.

But having said that, as I said before, strong board leadership is essential. The chair or dependent lead director usually will run the process, or it could be helpful to bring in a third party, someone who can facilitate the process and who's independent. But it's really important that if you do the assessment, you have follow through. The board chair, the Independent lead director needs to be prepared to have tough conversations, if necessary.

And the other thing I'll just say is, these individual assessments, they don't have to happen every year. They can happen every other year. So we think they're a valuable and effective tool.

Steve Odland: Yeah. And your point of one size doesn't fit all is really important here. I think the best practice is that to do all the above, but rotate it around. So maybe one year you do written surveys from the board members assessing. Another is interviews by the lead director with the other board members to get verbal input. Another one is then, every third or fourth year, bringing an outside assessment. It's got to be privileged, so it's got to be an attorney that provides privilege, but rotate it around, and then try to make it nonthreatening.

I think what people fear is getting stabbed in the back or being unfairly tarnished here. It could be constructed in a positive fashion, starting with what are you doing well that we'd like to see more of, and that people really respect from you. That's pretty darn valuable information.

Arielle Berlin: That's, I was going to say, maybe you'll get positive feedback. It's not all negative.

Steve Odland: No, it's probably mostly positive. Yeah, I would think. But there's always some suggestions and, gosh, that's true of all of us in every walk of life, where people would have suggestions for us. And that should be viewed as a gift, I would think, in some

ways. Maybe not, maybe not entirely, but you never know.

You talked earlier about some of the rapid developments in AI and talent, in particular. So what are you suggesting to boards that can help them enhance their oversight in these areas?

Arielle Berlin: First, I think making AI and talent, we talked about those before, recurring items on the board agenda, making them core agenda items right now. Also, we talked about this, but I think engaging the full C-Suite on these topics to gain deeper cross-functional insights into these areas. That will help the board. I think the board needs to make sure that they're getting the information they need from management in order to provide the proper oversight. That's critical. And finally, boards need to educate themselves and continue to upskill on these topics, and management should help with that.

Steve Odland: Now, how much of this should happen in the total board context versus the committees?

Arielle Berlin: I think it depends on where these topics, where they're delegated to. So if you have AI oversight at a committee level, which some companies are doing now, then it can sit there. And obviously up to board leadership to decide what needs full board attention at any given time.

Steve Odland: Yeah, and I think the remits of the compensation committees are being redefined here to include talent and include succession. And because you don't want to turn every board meeting into that level of discussion. Certainly, the CEO succession at least annually. ? But people are changing the name and the mission to compensation and talent, so that's an example, as well.

And depending on the industry, there are technology committees that are not SEC-demanded but an extra committee, just like there are finance committees or public responsibility committees, sometimes there are technology committees if your business is technology dependent, or this is really important. And then, boards also should not hesitate to create temporary committees. Let's do this for a few years to deal with some of this, but you don't have to do it forever, so it's not a one-way trip.

Arielle Berlin: That's true.

Steve Odland: So there are a lot of ways to come at this that would help the oversight, I would think.

Arielle Berlin: Yeah. And boards need to figure out who's going to own it and how often they're going to delve into each of these topics. But since management is saying here in this survey, we know that they want boards to spend more time on these topics, boards need to figure out—

Steve Odland: How to do it.

Arielle Berlin: How to do it.

Steve Odland: Yeah, and the right way for the values and the character of their companies. That's why we're very cautious not to recommend a one-size-fits-all approach.

So as you look ahead from these results, what do you see as the future corporate governance trends, and obviously, there's feedback here for boards. Maybe the trends are to address that. But any other trends that you'd like to raise?

Arielle Berlin: Look, I think technology is just going to continue to play a bigger and bigger role inside the boardroom and outside. And we probably can't even predict to what extent. So the trend, I think, will be that boards will become increasingly responsible for oversight of these areas. So board members need to continue to upskill themselves, to conduct regular risk assessments, to identify emerging threats and vulnerabilities.

And again, as I said before, to make sure that the board is receiving what it needs from management in order to carry out their oversight duties. And I think these duties are going to continue to grow, and management and the board hopefully can be focused on alignment and making sure that these risks are being overseen appropriately.

Steve Odland: Yeah, and I think you've got to throw in the geopolitical situation. Because even companies that are focused in one country, even if you're a US-based and you know that your market is the US, the geopolitical issues are affecting all elements of trade, supply chain, all of the trade and tariff issues. I don't see this ending in the short term, do you?

Arielle Berlin: No. And I'm not going to predict anything, but I wouldn't think so. It's funny, not funny, but you mentioned supply chain, and I'll just add in here that we asked executives what's keeping them up at night. And the top three were talent, AI, and supply chain.

Steve Odland: Supply chain. Yeah.

Arielle Berlin: So this is what management's focused on right now.

Steve Odland: Yeah. Everything's shifting. Any final thoughts on the results from the survey you'd like to share?

Arielle Berlin: No, this was a great survey, and we really enjoyed it. And I think that people should read the report.

Steve Odland: And they can find that on the PwC website.

Arielle Berlin: Yes. On the PwC website or can reach out to me directly.

Steve Odland: Yeah. And they can also find it on [tcb.org](https://www.tcb.org) under our Governance and Sustainability Center, Arielle Berlin, thanks for being with us today.

Arielle Berlin: Thanks so much for having me. It was great to be with you.

Steve Odland: And thanks to all of you for listening to C-Suite Perspectives. I'm Steve Odland, and this series has been brought to you by The Conference Board.

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