The Report of the NACD Blue Ribbon Commission

FIT FOR THE FUTURE

An Urgent Imperative for Board Leadership

NACD

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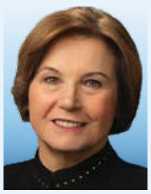

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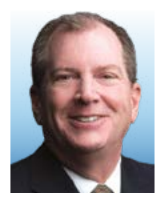

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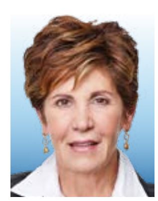

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Fit for the Future: An Urgent Imperative for Board Leadership
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Letter From the Cochairs

A century ago, America witnessed a managerial revolution with the emergence of professional executives and the birth of the modern corporation. The revolution built on new types of expertise in accounting, statistics, technology, engineering, and social sciences to "professionalize" management. Specialization of labor, standardized processes, quality control, workflow planning, resource allocation, and accounting allowed companies to optimize efficiency, build scale, and drive a long period of remarkable growth and wealth creation.[1]

We are now in the midst of another, equally significant business revolution with profound implications for companies and how they are governed. Changes involving markets, global competition, demographics, regulation, and, perhaps above all, technology are reshaping social and economic life in powerful ways. Businesses are confronting a wave of major, simultaneous, and interconnected trends that are redefining how companies create and preserve value.

The accelerating pace and intensifying complexity of change are leading to the emergence of a fundamentally different operating reality than incumbent executives and directors have experienced in their careers to date. However, this dizzying amount of change also creates immense opportunities for companies to out-innovate the competition, to generate value in new ways, and to strengthen their governance.

As the science-fiction writer William Gibson put it, "The future is already here—it's just not very evenly distributed."[2] The future belongs to businesses that can truly grasp the scale and scope of change and make the fundamental adaptations in operations and organization that this age demands.

For boards and their leaders—the independent chair or lead director and committee chairs—this is a period of challenge and transition that entails a difficult balancing act. In exercising their current board leadership responsibilities, they need to perform against heightened, often short-term expectations and to contend with ever-intensifying scrutiny from a wide range of stakeholders. At the same time, they need to meet the demands of the future by fundamentally reshaping how the board thinks, operates, and interacts with the business.

This is a report about leading boards into the future and about positioning boards to help their companies meet the challenges of the future. It argues that the pace and scale of change require a different modus operandi from the board governance model prevalent for the last 100 years, a new approach involving greater speed of decision making, proactive behaviors, adaptability, and innovation.

Boards will need to renew themselves by adding new types of expertise, experience, and capabilities to their ranks. They will need to take a critical look at how they perform and focus on continuous improvement. Their discussions will become more intense, and their structures more flexible. And they will need to carefully fulfill their supervisory and monitoring role while working in close partnership with management to shape business strategy.

In all of this, the role of a strong and effective board leader—the specific focus of this report—is crucial. It is the leader's job, as ever, to build and maintain a high-performing board. This is an increasingly challenging task given the demands on boards to ensure that the corporation is fit for the longer term, and it requires new leadership qualities. Board leaders now need to be able to do far more than preside over board or committee discussions. They need to be capable of catalyzing and orchestrating a transformation in how the board is composed and structured, how it operates and interacts with the business, and how it holds itself accountable.

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[1] Rita Gunther McGrath, "Management's Three Eras: a Brief History," the *Harvard Business Review*, July 30, 2014.
[2] William Gibson, participating on the panel for the episode, "The Science in Science Fiction," on National Public Radio's *Talk of the Nation*, November 30, 1999, timecode 11:20.

This is by definition not an easy process. It will involve uncomfortable decisions about board members who are not fit for the future, and challenging discussions with management teams whose strategies may be stuck in the past. It will entail painstaking work to reinvent board processes and reshape behaviors, with a view to increasing the quality of information available to the board and the candor and rigor of its discussions. It will mean requiring that all directors demonstrate a commitment to continuous learning and improvement and, in many cases, it will require them to devote more time to their duties outside of formal board and committee meetings.

The report summarizes the leadership qualities required with a word not often used in modern business parlance: fortitude. It's a fitting term, because it has many layers of meaning. Courage, for sure, but also strength of mind and character, boldness, perseverance, and resilience. These will all be needed, because sustaining the new approach will demand vigilance, even from leaders of the best-governed boards who may have already adopted many of the practices we outline in the report. As a Commissioner put it: *"It's easy to slip into a perfunctory frame of mind. Even big companies and high-performing boards need a reminder that none of the attributes of effective leadership can be taken for granted."*[3] And another Commissioner articulated the required mind-set as follows: *"Many board leaders know what they should do to improve their boards, but lack the courage."*

These statements came from directors of large public companies, but all of the above also apply to private companies, and even to nonprofits, which may be disproportionately affected by disruption, and may be more hamstrung by inertia when considering changing their governance approach.

This report takes a deeper look at major, accelerating business trends and their implications for board oversight (Part 1), and recommends specific actions board leaders can take in collaboration with their fellow directors—on board structure, engagement, composition, culture, and disclosures—to position their boards for the future (Part 2). As an aid to implementing the specific recommendations (summarized in Part 3), we offer a set of practical tools, examples, and case studies that board leaders and their boards can use to trigger the changes that we think are essential to keeping the board focused and forward looking—particularly in disruptive and demanding times. This report will help boards to identify and develop leaders capable of renewing the board's human capital, of adapting board structures and operations, and of delivering incisive board oversight and engagement on critical long-term issues, while demonstrating transparency and accountability. We believe that all of these capabilities are vital for the leaders of today, and that leaders with these capabilities will make an all-important contribution to their companies' chances of surviving and thriving beyond tomorrow.

Cari Dominguez
Lester Lyles

This Blue Ribbon Commission report represents a consensus of the Commissioners' viewpoints and reflects their support for its principal recommendations. We did not believe it necessary that each Commissioner agree with every word of the report. As a group, however, the Commissioners regard this report as a fair representation of their views on an important and timely subject.

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[3] Quotations in italics throughout this report are from members of the 2019 Blue Ribbon Commission.

PART 1

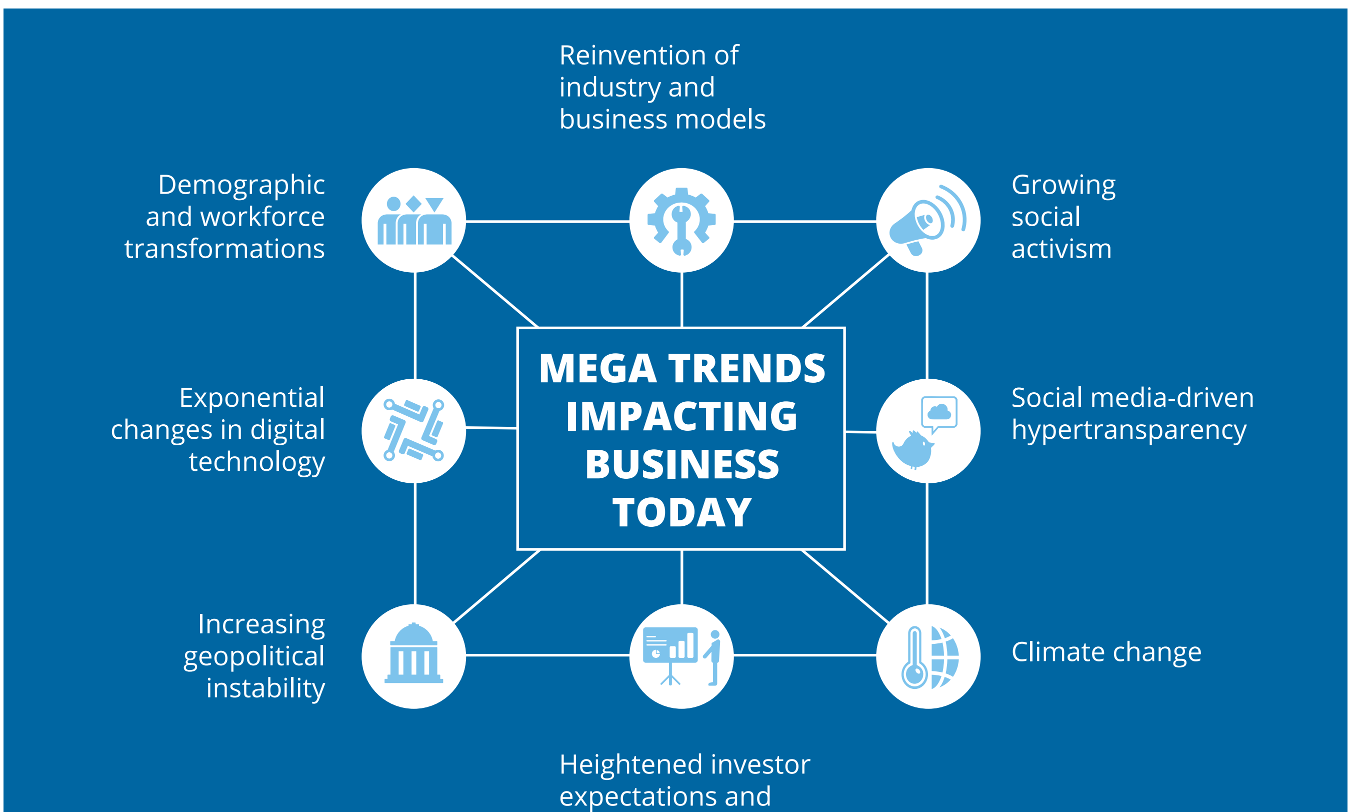
The Future is Already Here

Implications for the Boardroom

It is a truism that the only constant in business is change. But that statement does not remotely do justice to the scale and scope of the multiple changes confronting business in the first half of the twenty-first century. Rapid and far-reaching advances in technology are reshaping competition and the process of value creation in every business sector. The struggle to deal with climate change is beginning to transform the economics of extractive industries and others. Global supply chains are challenged by geopolitical and mercantile conflicts. Investor scrutiny is more demanding than ever. Society's expectations of business are increasing as governments struggle to address mounting challenges—income inequality, threats to data privacy, crumbling infrastructure, global warming, and so forth.

Each of these changes in itself is seismic. But what makes the current epoch uniquely unpredictable and hard to navigate is the fact that these changes are happening concurrently, interacting with and amplifying each other, as illustrated in the figure below.

As a result, companies may find it extremely difficult to anticipate the full impact or the second- or third-order effects of these disruptions in the next few years. This is especially true for boards of directors and their leaders, whose job it is to secure the long-term success of their companies. It is a challenge that is not going away any time soon—indeed, all indications are that it will become more acute.



Source: NACD research

AN EXISTENTIAL THREAT

As last year's Blue Ribbon Commission report on board oversight of disruptive risks pointed out, these trends "have the potential to change industry structure or operating conditions, make existing business models obsolete, derail growth, or otherwise pose a fundamental threat [or transformative opportunity] to the long-term strategy of the organization."[4]

But while the threats are clearly existential, it is far from clear that all companies and their boards are adequately equipped to respond, because many of the big issues facing business are in new or uncharted territories.

Technology is one obvious disruptor which is reshaping industries and forcing companies to consider new forms of collaboration that would have been unimaginable a few years ago. For example, the car industry is having to retool its entire production system to meet rising projected demand for electric vehicles while forming partnerships and joint ventures with leading software providers to exploit the emerging markets for autonomous cars. The competitive battleground and source of value creation has shifted rapidly and radically from the vehicles' hardware to the systems driving it.

Another challenge is the complex issue of climate change, where companies are feeling their way toward a response to fundamental market shifts involving international politics, governmental regulation, and investor expectations while considering the economic impact of climate risk. Boards need to bolster their capacity to navigate this labyrinth.

A third and rapidly-moving set of challenges is emerging from tectonic shifts in geopolitics and in particular from the rise of great-power rivalry, trade protectionism, and mercantilism—notably in the domain of technology, where the United States and China are engaged in what some see as a new arms race for control over the systems of the future.

Overarching all of these trends is another relatively new pressure: the pressure for companies to articulate and justify their broader purpose, in terms of how they address society's unmet needs in an era of great social change, activism, and political uncertainty. This is certainly the message from some of the largest institutional investors. As Larry Fink, CEO of BlackRock, put it in his 2019 CEO letter to portfolio companies, "Companies that fulfill their purpose and responsibilities to stakeholders reap rewards over the long-term. Companies that ignore them stumble and fail. This dynamic is becoming increasingly apparent as the public holds companies to more exacting standards. And it will continue to accelerate as millennials—who today represent 35 percent of the workforce—express new expectations of the companies they work for, buy from, and invest in."[5]

CREATIVE DESTRUCTION ACCELERATES

One important inference from these trends is that the formula for past success matters even less to companies considering their future. Research conducted in 2018 for the Fortune Future 500 initiative (the public companies with the best long-term growth outlook) shows that for large companies, there is now less correlation than there was before between past and future financial and competitive performance over multiple years.[6] This means that companies can no longer hope to prosper merely by sticking to their historical growth strategies and competitive advantages. Relying on past success can engender complacency—itself an existential threat.

It is certainly true that the process Joseph Schumpeter called "creative destruction"[7] is accelerating, and in consequence corporate lifespans are shrinking. A 2018 Inno-

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[4] NACD, *Report of the NACD Blue Ribbon Commission on Adaptive Governance: Board Oversight of Disruptive Risks* (Arlington, VA: NACD, 2018), p. 9.
[5] Laurence Fink's 2019 letter to CEOs, "Purpose and Profit."
[6] Martin Reeves, "The Global Hunt for the Next Decade's Fastest-Growing Companies," *Fortune* magazine, October 18, 2018.
[7] For more background, see Wikipedia's "Creative Destruction" entry.

sight study showed that, based on recent trends, nearly half of the corporate constituents of the S&P 500 could be expected to be replaced over the next 10 years. While companies in the S&P 500 had an average tenure of 33 years in 1964, tenures had narrowed to 24 years by 2016 and are forecasted to shrink to just 12 years by 2027.[8] This accelerating churn is to be seen also among very young firms—for example, five-year survival rates for newly-listed firms have declined by nearly 30 percentile points (dropping from 92 percent to 63 percent) since the 1960s.[9] In a parallel trend, the median CEO tenure for large-cap companies has been shrinking steadily over time—indeed, it dropped by one full year between 2013 and 2017. Median tenure is now five years.[10]

Structural change and industry consolidation are also impacting the nature of competition, creating a "winner-takes-most" dynamic in an increasing number of business sectors. Recent research based on analysis of 5,750 of the world's largest companies shows just how unevenly the fruits of success are now distributed in terms of economic profit (a measure of a company's invested capital times its return above its weighted cost of capital). The top 10 percent of these companies captured fully 80 percent of positive economic profit between 1994 and 2016.[11]

All of these implications are brought into sharper focus by the increasing shareholder scrutiny which companies are now under, not only from activist investors but also increasingly from institutional investors who wield their significant influence to demand change. Stephen Murray, the president and CEO of private equity firm CCMP Capital, goes so far as to say, "The whole activist industry exists because public boards are often seen as inadequately equipped to meet shareholder interests."[12]

So the challenges for boards and management teams are stark—probably more so now than at any time since the birth of the modern corporation a little more than a century ago. They mean that some, though by no means all, of these individuals' accumulated experience in strategy development and execution may be less relevant in the future than in the past. And they suggest that board leaders in particular need to adopt a new mind-set and consider a different modus operandi attuned to the demands of this rapidly-changing environment.

> The challenges for boards and management teams are stark—probably more so now than at any time since the birth of the modern corporation a little more than a century ago.

IMPLICATIONS FOR BOARDS

Three years ago, in its *Report of the Blue Ribbon Commission on Building the Strategic-Asset Board*, NACD first pointed out that a new leadership mandate for boards was

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[8] Scott D. Anthony, S. Patrick Viguerie, Evan I. Schwartz and John Van Landeghem, *2018 Corporate Longevity Forecast: Creative Destruction is Accelerating* (executive summary), Innosight "Insights" on innosight.com.
[9] Vijay Govindarajan and Anup Srivastava, "Strategy When Creative Destruction Accelerates" (Tuck School of Business Working Paper No. 2836135, September 7, 2016), p. 4.
[10] Dan Marcec, "CEO Tenure Rates," *Harvard Law School Forum on Corporate Governance and Financial Regulation* (blog), February 12, 2018.
[11] James Manyika, Sree Ramaswamy, and Michael Birshan, "What's Driving Superstar Companies, Industries, and Cities," *Harvard Business Review*, October 25, 2018.
[12] Dominic Barton and Mark Wiseman, "Where Boards Fall Short," *Harvard Business Review*, January-February 2015 Issue.

emerging, driven by "an operating environment . . . that is characterized by increased complexity and uncertainty and includes new sources of risk and opportunity."[13] We highlighted the role of the board leader in driving a continuous improvement ethos to ensure that the board remains fit for its purpose.

Yet performance expectations for boards continue to rise. In a 2019 NACD survey, 73 percent of directors reported that board leadership is more challenging now than it was three years ago, and 84 percent reported that performance expectations had gone up for all board members.[14]

Directors admit that they find it really challenging to keep up with change. In the same NACD survey, 36 percent of directors cited the struggle to stay abreast of the changing speed of business as one of the key impediments to the effectiveness of board leaders.[15] Commissioners for this report echoed that concern and highlighted it as a challenge for the entire board.

"Many directors don't feel comfortable talking about emerging technologies, cybersecurity, and other complex topics," said one Commissioner. *"As a result, they tend to defer to others, which can become an abdication of their responsibility to be active board members."*

In the view of the Commission, this shifting business paradigm has profound and immediate implications for boards, and these implications will intensify dramatically over the next 5 to 10 years. They cover board engagement with management, board renewal, operations, transparency, and accountability. Some of these implications are not new—indeed, boards have been grappling with all of them with greater or lesser success for some time. But there is no doubt that all of them have recently become more acute, and now pose an urgent challenge to board leaders. This is the agenda on which we will present specific recommendations for board leaders and their boards in Part 2.

IMPLICATION 1

Boards must engage more proactively, deeply, and frequently on entirely new and fast-changing drivers of strategy and risk.

The environment described above demands both expanding and deepening board engagement, and a new relationship between the board and the management team.

"The edges of the board stewardship box are expanding," said one Commissioner. *"Investors expect boards to focus on issues that fall under the ESG [environmental, social, and governance] umbrella . . . given the connections with long-term sustainable performance. There has been a push for boards to engage with management on these issues that I don't think will be reversed."*

In turn, a much deeper board understanding of business operations will become critical as these new trends start to transform how businesses are financed, run, and controlled, and how they deliver value to customers. Similarly, boards will be expected to get more deeply engaged in the oversight of major digital transformations, which are critical to the future of many firms, but which almost as many firms struggle to implement.

In a recent NACD survey, 86 percent of board respondents indicated that they fully expect to deepen their engagement with management on new drivers of growth and risk in the next five years.[16] This deeper, more proactive engagement is far from easy to implement. In effect, it entails the board moving from being a fairly passive monitor and overseer of the business to being more actively engaged in challenging management's thinking, and when appropriate, acting as a thought partner with management in order to effectively respond to new strategic challenges. The risk is that this new mode of engagement may spill over into micromanagement by the board or cause undue (rather than constructive) tension between the board and

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[13] NACD, *Report of the NACD Blue Ribbon Commission on Building the Strategic-Asset Board* (Washington, DC: NACD, 2016), p. 9.
[14] Data from an NACD director poll on the future of board leadership, conducted in April 2019.
[15] Data from an NACD director poll on the future of board leadership, conducted in April 2019.
[16] Data from an NACD director poll on M&A governance and other topics, conducted in May 2019.

the management team. For all of these reasons, making the shift in how the board engages requires strong and steady leadership, and in particular a constructive relationship between the chair or lead director and the CEO.

To be clear, we are not suggesting that directors encroach on the prerogatives of executives. A clear dividing line is still needed between board and management activity, with the board providing oversight and direction, not day-to-day management. We are suggesting is that board leaders reshape the conversation between the board and management to position boards as more proactive in providing direction and shaping the future strategy.

This will require access to better-quality information on the business and external trends—including information from sources independent of management and increasingly generated through advanced analytical techniques that can more quickly and precisely spot issues. The board leader will have a heavy responsibility to ensure that this proactive approach does not lead to board agenda overload by maintaining focus on what really matters—strategy, corporate culture, incentives, risks, capital allocation, financial performance, and talent, which are all critical to the company's long-term success and value creation.

By definition, a more engaged posture will also place new demands on board members' time. Board engagement can no longer just happen through a quarterly cadence but is becoming a continuous process. Already, the average public company director spends 245 hours per year on board service (per company)[17] and 74 percent of directors expect that their boards will have to significantly increase their time commitment in the next five years to fulfill their mandate.[18] Expending more time may not always be the right answer. It is more imperative for board leaders to critically evaluate the current process for agenda setting and management reporting to ensure that directors are appropriately informed and that time allocation during meetings is focused on the most critical issues.

The recalibration of roles—while respecting the essential oversight-versus-operations dividing line highlighted above—will turn the board-management relationship into something more akin to an iterative collective-learning process with a focus on both forward-looking strategic thinking and adaptation to change. As one Commissioner said, *"In our review and approve roles, we sometimes lose sight of the need to engage and then ruminate—continuing to learn—and then come back together to discuss again."*

In this environment, which puts a premium on orchestrating dramatic transformations and the successful execution of new ideas, there is a greater onus on boards to exercise good judgment than before. They need to continue to act as guardrails on management's ambitions, but they need to balance that with providing encouragement to management to be bold, embrace change, and put resources behind affecting change. As one Commissioner put it, *"The board's role is to exercise critical judgment on when to tap on the brake and when to accelerate through the curve."*

THE NEW EXPECTATION FOR BOARD LEADERS

It falls to the board leader to drive this heightened, more continuous degree of engagement—to ensure that the right conversations are being conducted at the right time, that the board is well-informed, that the critical relationships are in good order, and that the necessary boundaries are being respected. One Commissioner likened the leader's role to that of an orchestral conductor, setting the rhythm and tone of discussions and ensuring that each player plays his or her part to best effect.

[17] NACD, *2018–2019 NACD Public Company Governance Survey* (Arlington, VA: NACD, 2018), p. 25.
[18] Data from an NACD director poll on M&A governance and other topics, conducted May 2019.

IMPLICATION 2

Boards must approach their own renewal through the lens of shifting strategic needs to ensure long-term competitive advantage.

The ways in which firms create and preserve value is dramatically changing, demanding new types of expertise and thinking tied to the organization's shifting strategic needs. There is a pressing demand, for example, for up-to-date expertise in digital technologies, corporate culture, human capital, operations, marketing, and environmental issues, which will lead boards to consider different talent pools for board renewal. The most important aspect here is to ensure the right balance between expertise on emerging issues and relevant past experience.

For example, boards now recognize that technology competence on the board is critical—64 percent of respondents in a recent NACD survey on digital governance believe that the next member recruited to their board should possess strong technology expertise.[19] But as one Commissioner cautioned, such expertise needs to be bolstered by practical experience: "*The candidates best placed to make a contribution will be those that have worked in technology for many years, can put innovation in a strategic context, have a proven track record in digital transformation, or even have had to stay ahead of digital issues just to stay in their job.*"

Board diversity—in all senses, from ethnic, racial, and gender diversity to the cognitive and experiential dimensions—is becoming a strategic and moral imperative, as Commissioners in our 2018 report on disruptive risks emphasized. NACD's 2018 public company governance survey reports that 53 percent of companies now have adopted an explicit goal to diversify their board composition.[20] Board diversity alone is not enough to ensure the full benefits of board renewal. Ensuring the true inclusion of each member of a diverse board is also key; board leaders must be purposeful in creating an environment that enables diverse voices to be heard. One Commissioner stated that "*diversity without inclusion is just an illusion.*"

The question is, how are boards approaching the task of renewal? NACD analysis summarized in Board Renewal in the Russell 3000 Index (Page 14) signals gradual progress in areas such as the gender, ethnic, and age diversity of public company boards, but also suggests a mismatch between the types of director skills and experiences that boards are recruiting for today and the types of skills that will serve the future needs of their organizations.

Recognizing that boards will always need to possess "classic" leadership and industry experiences, these findings suggest that more effort is needed to align board recruitment with companies' evolving strategies and risks. In Part 2 of the report, we outline specific recommendations to strengthen this alignment.

THE NEW EXPECTATION FOR BOARD LEADERS

This is a first-order issue for board leaders—to maintain a constant, critical focus on the mix of expertise and ability on their boards, and specifically the alignment of that mix with the company's shifting strategic and risk needs. Every board will come up with its own answer to this question, but the crucial role for the board leader, in collaboration with the nominating and governance committee, is to ensure that the board's human capital represents shifting strategic and risk priorities and to challenge the board to keep coming back to this hard discussion rather than simply accepting "more of the same."

[19] Data from an NACD director poll on board oversight of emerging technologies, conducted in February 2019.
[20] NACD, *2018–2019 NACD Public Company Governance Survey* (Arlington, VA: NACD, 2018), p. 29.

Board Renewal in the Russell 3000 Index (Since 2018)

Director recruitment continues to prioritize classic skills and experiences.

(Prevalence of selected skills in new directors)

62% Executive Leadership

40% Finance

25% Technology

20% Investment

3% Human Capital/Talent Development

2% Cybersecurity

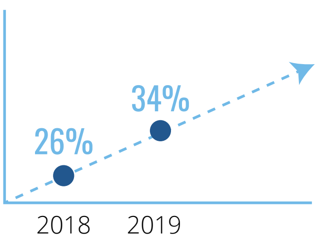
2% Entrepreneurial

57 yrs Average age of new public company directors

77% of new directors are on their first public company board

Gender Diversity

Percentage of new public company directors that are women



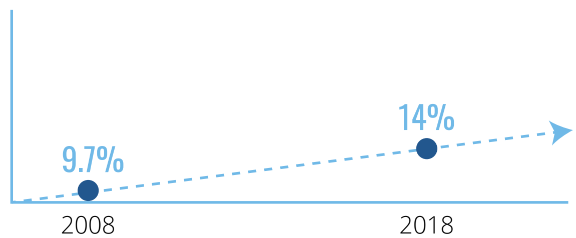
4% have a woman board chair

9% have a woman lead director

20% of directors are women

Ethnic Diversity

Percentage of new public company directors that are non-Caucasian



10% of directors are racial and ethnic minorities, not including women.[1]

[1] Kosmas Papadopoulos, "ISS Discusses U.S. Board Diversity Trends in 2019," *The CLS Blue Sky Blog*.

Directors are in for a long ride.

15+ yrs. **10–15 yrs.**

The average public company director has been in seat for a decade.

Source: Data and company intelligence collected from MYLOGIQ - Multidimensional Public Company Intelligence, NACD analysis (as of July 2019).

IMPLICATION 3

Boards must adopt a more dynamic operating model and structure.

The furious pace of change also puts strains on the traditional board operating model. At a formal level, board structures and processes appear to have changed little as new challenges have proliferated in recent years. Boards still meet six-to-eight times a year in most cases, their standard meeting agendas still dedicate what might seem to be a disproportionate amount of time to procedural and compliance matters, and they generally retain the same three standing committees, despite the emergence of a variety of new issues that may fall outside those committees' mandates.

Board leaders will be expected to optimize scarce meeting time, rethink agenda setting, and consider the use of virtual tools to connect more continuously as a board.

At the same time, there is concern with overload, both at the full-board level and in committees. In a survey conducted by KPMG, 39 percent of audit committee members said it is becoming increasingly difficult to both oversee the major risks on the audit committee's agenda and carry out its core oversight responsibilities.[21]

Formal meetings are, of course, where all board decisions are made (other than decisions by unanimous consent), but meetings are not the only time that board leaders and directors engage with the company. What happens between and outside board and committee meetings is also important. An INSEAD research study on board chairs of global companies noted that "meetings are just the tip of the iceberg" of a board leader's efforts to "create the conditions under which [the board] can have productive . . . discussions."[22] Board leaders will be expected to optimize scarce meeting time, rethink agenda setting, and consider the use of virtual tools to connect more continuously as a board.

The Commissioners suggested that boards need to adopt a more fluid and flexible operating model, involving more regular off-line conversations between lead director and CEO, regular CEO updates to directors, and premeeting conversations between the lead director or chair and other board members to maximize the effective use of formal meeting time.

"We will have our three core committees but may need more fluid committees depending on the issue or urgency," one Commissioner said. *"We will have to become fluid around the board's schedule and time and may need to use more tech-enabled meetings to address issues. Should an independent chair or lead director be spending time with management two-to-three levels down?"*

THE NEW EXPECTATION FOR BOARD LEADERS

The board leader needs to drive an ongoing and rigorous—not perfunctory—assessment of the board's processes and structure, with a view to ensuring that precious board time is correctly allocated and that the necessary off-line conversations take place, and enabling a more dynamic, fluid board structure to better oversee new and fast-changing issues.

[21] KPMG's Audit Committee Institute's *2017 Global Audit Committee Pulse Survey: Is Everything Under Control?* (KPMG International, 2017), p. 5.
[22] Stanislav Shekshnia, "How to Be a Good Board Chair," *Harvard Business Review*, March-April 2018.

IMPLICATION 4

Boards must be much more transparent about how they govern.

Whenever a company encounters a governance failure or a major ethical problem, ranging from #MeToo-type executive misconduct to allegations of widespread fraud, one of the first questions that gets asked is this one: "Where was the board?" This implies a lack of visibility into how boards have acted or failed to act when confronted with major challenges. It also reveals significant concerns about directors' levels of engagement and awareness.

The image of an aloof and ill-informed board is dangerous in a world in which news items (or rumors) about corporate failures proliferate with great speed due to social media.

The image of an aloof and ill-informed board is dangerous in a world in which news items (or rumors) about corporate failures proliferate with great speed due to social media. When such matters do come to the public's attention, boards find themselves forced into a defensive or reactive posture.

Hypertransparency is a challenge for all companies and it is not going to go away. Increasingly, companies and their boards will need to behave as if anything they say and do, however spontaneously and privately, may become public. They will need to be aware that public opinion is a moving target, and that those who do not stay ahead of it can find themselves accused of being myopic or, worse, dishonest.

Meanwhile, the volume of formal corporate disclosure has increased exponentially in recent years. For example, 86 percent of the S&P 500 now publish annual sustainability reports, compared to only 20 percent in 2011.[23]

But while better information about companies is important to all stakeholders, investors, in particular, want a more nuanced understanding of the value that the *board* brings. They have expressed the desire to learn more about how boards operate, how they make decisions, and how they hold themselves accountable. They are looking for more transparency about everything from boards' processes for self-evaluation to the extent of their cybersecurity expertise.

THE NEW EXPECTATION FOR BOARD LEADERS

The board leader needs to challenge prevailing assumptions about the limits of transparency and disclosure, engaging directors and management in dialogue about how to appropriately offer visibility into the workings of the board. At the same time, the board leader should seek to strengthen relationships with major shareholders or other stakeholders to better understand their shifting needs for information about the board and the governance of the company.

[23] Governance and Accountability Institute, "FLASH REPORT: 86% of S&P 500 Index® Companies Publish Sustainability / Responsibility Reports in 2018," May 16, 2019.

IMPLICATION 5

Boards must hold themselves more accountable for individual director and collective performance.

In a recent NACD poll on the future of board leadership, 46 percent of respondents reported that their board leaders fail to remove directors who are no longer qualified to serve.[24]

Even if this perception does not fairly reflect the reality, the perception is in itself a problem. It is a key part of the board leader's mandate to get the most out of the board's skills, and if the talent on the board is deficient, the board leader should help lead the process to make changes. *"How do we hold directors accountable if they are not carrying their weight?"* commented one Commissioner. *"This is one of the most critical responsibilities for board leaders, and one of the toughest to deal with."*

When it comes to collective board performance, accountability arguably starts with the rigor and candor of discussions within the boardroom—and this is found in many cases to be wanting. According to research by WomenCorporateDirectors, 77 percent of directors (male and female) said their boards would make better decisions if they were more open to debate.[25] Board leaders have an important responsibility to ensure that board dialogue, while remaining productive and striving for consensus, encourages diverse and even conflicting ideas.

> When it comes to collective board performance, accountability arguably starts with the rigor and candor of discussions within the boardroom.

Individual director and full-board performance may be improving, but the question is whether it is doing so fast enough in an era of heightened investor, regulatory, and societal expectations. What is needed is a degree of change that will have far-reaching effects on the purpose, mandate, and operating model of boards. And the cost of inaction will be high. As the 2016 NACD Blue Ribbon Commission on building the strategic-asset board emphasized, "without sufficient and timely evolution, boards could face revolution."[26]

THE NEW EXPECTATION FOR BOARD LEADERS

Strengthening the board's accountability for individual director and collective performance is an urgent mandate for every board leader. This requires that the board have clear objectives, and that board members have a detailed job description, a clear understanding of what is expected of them, and encouragement to express diverging views. The board leader must demonstrate courage in initiating discussions with underperforming directors and, when appropriate, start the process to replace directors who no longer add value.

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[24] Data from an NACD director poll on the future of board leadership, conducted in April 2019.
[25] Stuart Jackson, "Boards Must Be More Combative," *Harvard Business Review*, January 27, 2017.
[26] NACD, *Report of the NACD Blue Ribbon Commission on Building the Strategic-Asset Board* (Washington, DC: NACD, 2016), p. 6.

PART 2

Opportunities for Action

Strategies for Board Leaders

The implications and expectations outlined above combine to create a blueprint for making board leaders more effective in dealing with the challenges of today and, more important, tomorrow. Clearly, the future will require more engaged, forward-thinking, agile, flexible, and self-correcting boards. The Commission has formulated a number of recommendations to assist board leaders in addressing each of the five areas with practical measures, but first we will look at the crucial role of board leaders. What is their new mandate, and what new leadership attributes will they need to exhibit?

> Board leaders must facilitate change through persuasion and influence, most notably by conducting productive dialogue with the full board and each individual director.

SETTING EXPECTATIONS FOR THE NEW BOARD LEADER

The fundamental role of board leadership stays the same: building and maintaining high-performing boards that build long-term value. Here is how NACD has described board leaders and their role in its past Blue Ribbon Commission reports:

- Board leaders are the linchpins on many key issues, including the board-CEO relationship, board dynamics and culture, setting the board agenda, information flows between the board and management, and stakeholder relations (especially board-shareholder engagement).
- Many NACD principles and positions about what constitutes good board practice are contingent upon having a strong and effective leader in this role. Strong, qualified individuals in this role "[have] the ability to give the board a competitive advantage."[27]
- As seen in the infographic that follows on page 19, based on 2019 NACD analysis of S&P 500 chairs and lead directors, board leaders today have extensive tenure on the boards they serve, bringing with them strong institutional memory, and they almost always have past experience in business leadership roles and a proven track record in strategy and execution.

But the new imperative for the board leader—the independent chair or the lead director—is to both lead and "future proof" their boards. In addition to leading the board in supervising and advising management, board leaders need to catalyze important changes. But they cannot command change in the way they may have done as CEOs or executives in their prior professional lives. Board leaders must facilitate change through persuasion and influence, most notably by conducting productive dialogue with the full board and each individual director. The board leader can't just push through new governance approaches to make the board fit for the future by diktat; he or she must make it the collective responsibility of the board to identify and execute on self-improvement opportunities around structure, process, and behavior.

[27] NACD, *Report of the NACD Blue Ribbon Commission on the Effective Lead Director* (Washington, DC: NACD, 2011), p. 13.

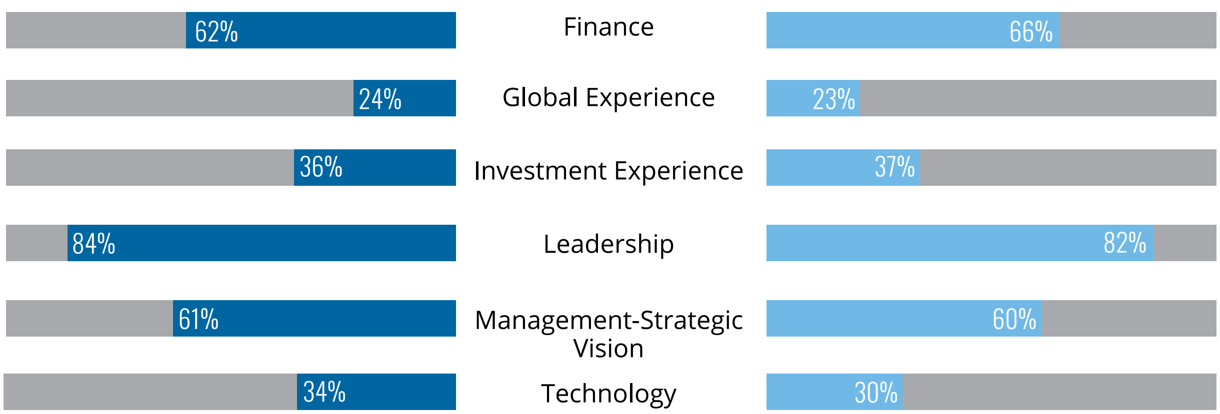
Profiles of the Board Leader (Russell 3000)

Independent Board Chair

Lead Director

Independent Board Chair			Lead Director		
4% Female					**9%** Female
7 yrs. Average Tenure as Independent Board Chair	**14 yrs.** Average Tenure as a Director	**65** Average Age	**67** Average Age	**13 yrs.** Average Tenure as a Director	**5 yrs.** Average Tenure as a Lead Director

Most Prevalent Experience



Source: Data and company intelligence collected from MYLOGIQ - Multidimensional Public Company Intelligence, NACD analysis (as of July 2019).

Criteria for Future Leaders

In light of this evolving mandate, boards should pay more specific attention than they have in the past to defining the characteristics and behaviors they require in their leaders. And it's not a one-size-fits-all description. It will likely vary based on the maturity of the board's composition and the challenges and opportunities confronting the company. Armed with a clear definition, boards should then devote more effort to identifying future leaders, starting with the initial process of recruiting directors and continuing through the selection of committee chairs, the assignment of new responsibilities, and the establishment of new behavioral norms. At the same time, they should agree on what measures to use to evaluate the performance of their current board leaders.

RECOMMENDATION FOR THE BOARD

Define, and periodically refine, the characteristics and role requirements expected of your next board leader in order to prepare candidates to lead the board into the future. Consider emphasizing the importance of fortitude and adaptability when updating the leader's role definition.

Establishing this new baseline for effective leadership is a vital prerequisite for all of the recommendations that follow. Their application requires commitment and fortitude from the board leader, often in collaboration with the CEO and the management team.

While every board will want to approach this in its own way, the Commission suggests a number of responsibilities and attributes they regard as essential for today's board leaders, which we summarize below.

PRIORITY RESPONSIBILITIES FOR BOARD LEADERS OF TODAY

- Lead the setting and monitoring of board performance goals that are regularly synchronized with the (shifting) business strategy.
- Drive alignment and connectivity. This includes staying connected on material new initiatives and strengthening alignment in how committees and the full board engage on crucial, but now fast-changing, issues such as strategy, risk, disruption, talent, corporate culture, incentives, and technology.
- Lead the setting of shared values and expectations for a well-functioning board, including the use of a fully candid board, committee, and individual-director performance evaluation.
- Pay continuous attention to (a) what's working and why, (b) what's not working and why, and (c) how the board can use this knowledge to improve its effectiveness.
- Spend considerable time in one-on-one discussions on key topics with other board members, the CEO, and the management team, with a focus on ensuring openness of discussion and constructive group dynamics.

DESIRED ATTRIBUTES FOR BOARD LEADERS OF TODAY

- Fortitude and vigilance to ensure that changes in board processes and practices change behaviors over time
- Adaptability—a willingness to recognize a board's new needs and responsibilities and adjust board practices, processes, agenda setting, and structures accordingly
- Superb communication skills, especially with regard to difficult communications, including sensitive messages to the CEO and to fellow directors
- Aptitude for relationship building, not just with the board, the CEO, and the senior team, but also with key shareholders, stakeholders, and regulators
- Inclusiveness—ensuring that the growing diversity of the boardroom is optimized, and enhancing collaboration that is inclusive of different, unconventional thinking
- Humility—placing a high premium on listening and seeking to understand the (contrasting) views of others. The successful board leader presents himself/herself as "last among equals"

Page 37 of the Toolkit includes a more extensive list of attributes regarding the lead director.

These new leadership characteristics and roles should also trigger a reassessment of the approach used to develop and select the right board leader candidate. In the spirit of future proofing the board, this process must be fair and transparent. As one Commissioner pointed out, *"Seniority shouldn't rule or the current chair's favorite shouldn't be anointed."*

RECOMMENDATION FOR THE BOARD

Evaluate the current process that will be used to select the designated board leader to ensure that it is a fair, transparent, and sufficiently future-oriented process.

The following summation highlights a number of key considerations to strengthen the selection process.

CONSIDERATIONS IN IDENTIFYING AND SELECTING THE NEXT BOARD LEADER

- **Set criteria for the next board leader.** Criteria could be informed by the assessment of the current board leader's performance and prioritization of their most important improvement areas. Also, emphasis should be given to a track record of championing change in and outside of the boardroom, and to the ability to think strategically about the role of the board in light of major business change.
- **Elicit input from directors.** Have one or two designated lieutenants to the chair or the lead director canvass which members of the board fit the criteria and would make an effective lead director or nonexecutive chair.
- **Seek CEO input to the selection of the board leader.** This will increase the chances of a collegial and constructive relationship between these two individuals in the future.
- **Have the nominating and governance committee or a special committee recommend a candidate to the board after considering several candidates.** The committee should evaluate the strengths and weaknesses of several candidates to assist the board in choosing the right person for the job.
- **Hold a formal vote in executive session by the independent directors after discussing the conclusions and recommendations made by the nominating/governance committee or a special committee.** The particular voting method (e.g., a show of hands, roll call, or anonymous ballot) will depend on boardroom culture and the level of trust among the board members.

Source: Summarized and updated from the *Report of the NACD Blue Ribbon Commission on the Effective Lead Director* (2011).

When the board selects its next leader, it should consider adopting a policy that precludes the new lead director or nonexecutive chair from also chairing a board committee. This dual leadership role is still common, with 45 percent of board leaders of companies in the Russell 3000 Index chairing at least one of the three standing board committees.[28] However, these multiple roles may inadvertently limit the growth opportunities of other directors, who are ready to fulfill new leadership roles, and may distract the board leader from delivering on the new imperatives we describe above.

STRENGTHENING BOARD ENGAGEMENT

Board leaders will need to orchestrate more meaningful board engagement to help inform strategic choices and to understand the risks being taken in a much more uncertain and fast-changing environment. Earlier, we described the pressures for boards to become more actively engaged with their companies, without falling into the trap of micromanagement or losing the objectivity required to oversee the business. We suggest that this requires collaboration and candid dialogue between boards and management teams about respective roles and responsibilities.

[28] Data and company intelligence collected from MYLOGIQ - Multidimensional Public Company Intelligence, NACD analysis (accessed July 2019).

RECOMMENDATION FOR THE BOARD LEADER

Work with the CEO to step up board engagement with management, under the motto, "Trust, but verify."

An open and trusting relationship, based on mutual respect, between the board leader and CEO is indispensable to the health of any company. For the role of the board to change in ways that we have argued are necessary, these two individuals need to reach agreement on where more proactive and deeper board engagement would be most valuable.

In a study of "superaccelerators" (large global companies with a demonstrated track record of outperforming competitors on profitable-growth metrics), Heidrick & Struggles found the strength of the relationship between the independent chair/lead director and the CEO to be the most important of five key distinguishing characteristics of top performers.[29]

For the board, the guiding motto should be, "Trust, but verify." This means striking the right balance between trusting the management team and having the confidence to ask tough questions and drill deeper when the answers aren't satisfying, the assumptions about fast-changing risks and opportunities are less certain, or the information given is opaque or insufficient.

For the CEO, it means being ready to listen and consider board input—for example, in cases where management appears to have been reluctant to engage the board—but also sharing candid feedback where the board's contribution is seen as falling short.

The precise thrust of the discussion will differ from one company to another, but the aim is to enable the senior executive team to draw on the full potential of the board without crossing the line of performing management's role. This ongoing dialogue may cover, in no particular order, these topics:

- **Clarifying where the board would like to seek deeper involvement and why this creates better governance.** Examples might be earlier and more in-depth understanding/verification of strategy development and underlying assumptions, preparations for responding to disruption, and plans for major corporate transformations.
- **Creating a shared picture of the present, and of the future, and of where the industry and the competition are headed, and of what that means for strategy.**
- **Enhancing board focus on innovation and change.** Here is another shift made imperative by the speed of business change. Where in the past a board's typical posture may have been to act as a brake on management's ambitions, an equally important goal should now be to work with management to ensure that they embrace innovation and can successfully drive change in the organization.
- **Assessing how well management is maintaining critical alignments among key determinants of performance (e.g., strategy, risk management, innovation, controls, incentives, culture, and talent).** This becomes increasingly important as strategies are more frequently being recalibrated.
- **Establishing a framework for more frequent, focused management communication with the board between formal meetings.** This can help streamline the meetings themselves, freeing up time to focus on the most critical strategic matters.

Page 45 of the Toolkit offers a guide and specific questions to engage management in a future-oriented discussion about the business.

In this "trust-but-verify" mode of engagement, transparency through the provision of better, real-time, objective information is a critical ingredient. This type of engagement can no longer be a quarterly activity. In the words

[29] Heidrick & Struggles, "Is Your Board a Catalyst—or a Constraint?," an online article on heidrick.com, March 16, 2017.

of one Commissioner, *"There now needs to be continuous communication between board and management and among board members, and the board leader has to be the conductor, ensuring that this more-intense engagement takes place in a harmonious way, where everyone is respectful of each other's role. Equally, the CEO has to orchestrate the management's engagement in this process to create an environment of real-time transparency and candor."*

That means more frequent management updates on key changes in the business environment and resulting impacts on business strategy. Crucially, updates need to include insights about company performance vulnerabilities and reporting on underperformance against benchmarks. This would address the board's need for more meaningful information, appropriately timed, to help them to advise on strategic decisions and improve oversight.

RECOMMENDATION FOR THE BOARD

Review the protocol for the flow of information to the board to ensure appropriate transparency on company performance and risk.

According to NACD's 2018–2019 public company survey, directors now spend nearly twice as much time reviewing materials from management as they allocate to reviewing relevant information from external sources, revealing a heavy dependence on management views and analysis in fulfilling their oversight duties. However, 53 percent of directors indicate that the quality of management's reporting to the board must improve, suggesting that boards need better—not more—information from management.

Boards should regularly reassess with management teams their reporting approach and materials. One Commissioner suggested a systematic reappraisal every three years as a good benchmark; another recommended more frequent rethinking of dashboards and flash reports, to check that they cover the right leading indicators. Finally, it is helpful if boards provide written guidelines on the desired length, format, and content principles for information that the board receives.

More important still is the openness of the communication channel, including regular written updates from the CEO accompanied by monthly calls and ad hoc communications on material issues in real time. Page 48 of the toolkit includes a case study from Netflix, which has introduced a distinct approach to enhance board transparency about performance.

DRIVING STRATEGIC BOARD RENEWAL

In order to deliver more meaningful and deeper engagement on entirely new issues, the board leader and the chair of the nominating and governance committee should thoroughly assess whether the board has the right human capital to fulfill its mandate and deliver ongoing value. One of the key questions will be whether the board's existing composition is aligned with the challenges likely to face the business in the future sketched out together with the management team, and if not, how it should best be renewed.

One useful way of thinking about this task could be a "clean-sheet" approach to board diversity and composition, which NACD first recommended in its Blue Ribbon Commission report on building the strategic-asset board.[30] In particular, nominating and governance committees should consider asking the following questions:

- If we were to create a board from scratch today, what would it look like holistically, from the standpoint of skills, leadership styles, and backgrounds? What will we need in three, five, or more years?
- Have we sufficiently mapped out our strategy and risks into the future to understand what profiles we need?

[30] NACD, *Report of the NACD Blue Ribbon Commission on Building the Strategic-Asset Board* (Washington, DC: NACD, 2016), p. 14.

- How should our board composition represent the characteristics of the company's current and future customer base as well as its workforce?
- If we are anticipating adding one or more new directors in the next couple of years, have we vetted our recruitment profile to ensure criteria are relevant and that they are not unnecessarily restricting access to appropriate candidates (e.g., requiring CEO or prior board experience)?

Page 49 of the Toolkit addresses considerations around aligning director compensation with the new demands on boards and page 56 offers detailed guidance on future proofing director skill sets.

In addition to requirements for the board as a whole, this exercise should include committee-specific considerations, such as the availability and readiness of potential successors for current committee chairs and plans for committee-chair succession. The output will be a future-oriented outline of what the organization requires from the board. It can be used as a baseline to assess the relevance of current directors' skill sets, to identify opportunities for continuing education, and to prioritize recruiting needs.

In considering board renewal, it can also be helpful to learn directly from major investors, and perhaps other stakeholders, how they are scrutinizing board composition and succession planning. What skills and perspectives would they want to see represented in the boardroom?

RECOMMENDATION FOR THE BOARD LEADER

Develop your board renewal process to align with both current and future strategic needs and valid stakeholder expectations.

Recruitment

In recruiting new directors with appropriately varied skills and experience, it will be important to minimize biases and consider genuinely different talent pools. Several of the Commissioners stressed that the behavioral or personality-based aspects of director candidates should also be taken into careful consideration. For example, in recruiting so-called "expert" director candidates, the board needs to ensure that they have the right mind-set to collaborate and add value in areas outside of their particular domain expertise—and the potential to become future board leaders.

This expectation calls for introducing more rigor into the recruitment of director candidates overall: for example, proper assessment tools and interview techniques should be used to evaluate a candidate's approach to governance, fit with the culture of the board, and capacity for learning, as well as his or her ability to deal with conflict and constructively disagree. Although these types of assessment are not yet commonplace, nominating and governance committee chairs should consider their benefits in collaboration with the recruitment firms they use.

In addition, it is vital in the recruitment and onboarding process that expectations are set at a very early stage with every candidate about how they will contribute. Several Commissioners mentioned the use of board mentors—for example, a seasoned board member showing the new director *"the ropes within the boardroom,"* offering feedback after board meetings, and advising on specific aspects of board governance. Indeed, this type of support may well be worth repeating for directors who have been in seat for some time. A board on which one Commissioner serves has created a "reboarding" program for directors about 18 months into their board service to help them better understand the business and to enhance their board/committee contribution.

RECOMMENDATION FOR THE BOARD

When recruiting "expert" directors, balance the emphasis on proven, relevant, technical expertise with the candidate's ability to learn, to add value in other areas, and to collaborate.

Tenure

Tenure is an often-overlooked aspect of ensuring the right board composition. Boards with members who have served for varying lengths of time enjoy a number of benefits, including a blend of institutional memory and fresh perspectives. NACD does not have a formal, rigid position on the use of tenure-limiting mechanisms to drive board renewal. Such mechanisms are a useful part of the board's toolkit to ensure the right composition, and their adoption should be left to individual boards. But their formulaic use can deprive the board of the richness and depth of knowledge that can only be brought to the table by seasoned directors.

We expect the use of formula-based, tenure-limiting mechanisms to be blended with continuous-improvement models that keep board composition and director turnover attuned to evolving strategic needs. As NACD outlined in its 2016 Blue Ribbon Commission report on building the strategic-asset board, at a minimum, boards should strive for a balanced mix of tenures on the board—for example, maintaining a composition that includes at least one director with less than 5 years of service, 5–10 years of service, and 10 years or more of service.[31]

RECOMMENDATION FOR THE BOARD

In renewing the board, acknowledge the importance of tenure. Boards should strive for a mix of tenures on the board—for example, maintaining a composition that includes at least one director with <5, 5–10, and >10 years of service.

Boards that regularly revisit their renewal strategies are better prepared to identify gaps against current and future needs, and to ensure that the board's composition supports the company's strategic direction. Page 54 of the Toolkit offers a detailed case study of Foot Locker's successful approach to board renewal and its alignment with the shifting strategic needs of the company.

BUILDING AN INCLUSIVE BOARD CULTURE

Boards already know how to be purposeful in seeking out individuals who bring a variety of backgrounds, perspectives, and skills. Now they need to be just as purposeful in creating an environment that enables those diverse voices to be heard.

The board leader has a critical role to play in activating diversity in the boardroom by recognizing that the aim is not "hiring for diversity and then managing for assimilation."[32] The goal of the board leader after bringing in new board members is not assimilation but rather enhancing collaboration that is inclusive of different, unconventional thinking. With higher levels of diversity in the boardroom—whether this is diversity in experience, skills, gender, race, ethnicity, or age—it's critical for board leaders to create a culture that facilitates constructive and candid interactions between board members and that ensures that each director is heard from on important issues.

RECOMMENDATION FOR THE BOARD LEADER

Foster a collaborative culture that will get the most out of a more diverse group of directors.

The difficulty of this should not be underestimated, given the unusual characteristics of boards as opposed to more conventional teams who actually work (or play) together. A 2018 INSEAD study on independent chairs of

[31] NACD, *Report of the NACD Blue Ribbon Commission on Building the Strategic-Asset Board* (Washington, DC: NACD, 2016), p. 19.
[32] Nicole Anand, "'Checkbox Diversity' Must Be Left Behind for DEI Efforts to Succeed," *Stanford Social Innovation Review*, May 21, 2019.

global companies pointed out that "directors are not a traditional team. They spend little time together (four to six board meetings a year plus some committee meetings and phone calls), and each member usually sits on more than one board."[33] So different approaches to collaboration and meeting leadership are required.

Perhaps the most important, and most difficult, aspect of this challenge is creating a culture in which directors can speak candidly, disagree vigorously, and still achieve a workable consensus. In our NACD Board Leadership poll, directors cited "promoting candid and rigorous discussion during board meetings" as the most important responsibility facing board leaders. They also suggested it was one of board leaders' most difficult responsibilities.[34]

This is another reason why we emphasize fortitude as the most crucial attribute for board leaders—in this context, the courage and strength of mind to gain acceptance for difficult or controversial messages or points of view. One Commissioner summarized it as follows: *"The board leader needs to enable a culture that allows for creative, innovative thinking and embraces dissenting viewpoints—not just 'go along to get along.'"*

Page 60 of the Toolkit offers a board effectiveness checklist to pressure test your board's current dynamics.

FOSTERING CONTINUOUS LEARNING

"Continuous lifelong learning" is such an oft-heard phrase that it's close to becoming a cliché. But it's nonetheless a worthwhile approach for boards and management teams to adopt—because when the pace of change is accelerating, "the fastest-growing companies and most resilient workers will be those who learn faster than their competition."[35]

This, too, will function most effectively as a collaborative effort between the board and the management team. It's the role of management to help educate the board about the future and its impact on strategy. The board leader should help the C-suite understand the board's expectations for the learning process, the time line, and the board's information needs.[36] At the same time, the board leader should set the expectation that directors not rely solely on management for all of the information they receive, but rather seek out other external sources proactively to deepen their understanding of the business.

The agenda for potential learning is vast and constantly growing. As our 2016 Blue Ribbon Commission report pointed out, "Some learning opportunities may be specific to individual directors; others may be common to all members of a committee or to the entire board (e.g., raising the board's collective knowledge about cyber threats). Individual, committee, or board-level learning agendas might include industry-specific topics; emerging economic and technology trends; governance matters; regulatory developments; shareholder/stakeholder issues; and/or team dynamics and decision making."[37]

RECOMMENDATION FOR THE BOARD LEADER

Develop and maintain a targeted, continuous learning agenda for the board.

Commissioners offered a number of observations about the pursuit of structured board learning:

- First, that it is not just a matter for board leaders and committee chairs—it is a collective task for the whole

[33] Stanislav Shekshnia, "How to Be a Good Board Chair," *Harvard Business Review*, March-April 2018.
[34] Data from an NACD director poll on the future of board leadership, conducted in April 2019.
[35] Thomas Friedman, "The Next America," the *New York Times*, Dec. 4, 2018.
[36] KPMG, *Facilitating the Board's Engagement in Strategy*, KPMG Board Leadership Center's Lead Director Insights (2019), p. 4.
[37] NACD, *Report of the NACD Blue Ribbon Commission on Building the Strategic-Asset Board* (Washington, DC: NACD, 2016), p. 19.

board to stay "constantly curious." This can be assisted through experiential learning, where the board visits company sites or meets local managers.

- Second, there is a constant need to focus collective learning on new technologies—not just the features of emerging technologies but also the reasons why they are so disruptive and how competitors have succeeded in commercializing them.
- Third, longer-serving directors will benefit from periodically refreshing their knowledge of the basics—for example, by joining new director orientation in order to understand how management's presentation of the issues may have changed.
- Finally, the learning imperative applies equally to management. To this end, selected executives should be encouraged to take board positions with companies that are not competitors.

Page 62 of the Toolkit offers an approach for continuous director education.

A continuous-education strategy for the board should also include sessions where the board collectively reflects on governance failures that happened elsewhere, perhaps at companies in their industry. This analysis can offer important teaching about how and why other boards may have struggled to deliver effective oversight, what their blind spots were, and whether similar vulnerabilities may be present on their own board. Additionally, directors who serve on more than one board or who have prior experience on other boards should bring relevant experiences from other board service into the boardroom.

BUILDING AGILITY INTO BOARD OPERATIONS AND STRUCTURE

As stated earlier, the dynamic external environment requires boards to be more careful than before about how they allocate their time, but also more flexible in responding to events. The starting point is effective agenda setting for board meetings.

Agendas

The Commissioners offered a number of specific ideas for enhancing board meeting effectiveness:

- First, think holistically about the entire cycle of meetings throughout the year and not just about the agenda for individual meetings. The objective is to ensure the highest return on the time that the board spends together and with management—including what happens outside, around, and in between the actual board meetings.
- Second, make a deliberate effort to ensure that board meetings are not predominantly focused on the past and on compliance—on the rear-view mirror, so to speak. Create "white space" time for open conversation and time to delve into identified issues of importance. Foster dialogue and minimize time spent on formal presentations.
- Third, take a strategic and almost mathematical approach to time allocation. One Commissioner described how the board tracks how it is spending its time in meetings, then asks board members their opinions about how the board *should* be spending time, and periodically optimizes the mix.
- Fourth, try to maximize one-on-one time with the CEO and the board. It is important to spend time with the CEO without other managers present. An hour and sometimes more at the start of every meeting, and then again at the end, coupled with a CEO/director-only dinner, is an effective way "to get everything that needs airing out on the table."

See page 65 in the Toolkit for a template on making your board agenda more forward looking.

RECOMMENDATION FOR THE BOARD LEADER

Periodically review agenda effectiveness and assess how the board is spending its time to ensure that the most critical issues receive appropriate attention.

More Fluid Interactions

Boards must move beyond their four-to-six formal meetings a year to much more frequent interaction aided by technology, so that real-time communication becomes the norm and the board meetings are used for deliberation, decision making, and the opportunity for in-person check-ins. The use of technology does not negate the importance of the personal connection. That is still very important for many reasons—not the least of which is for developing relationships that enable difficult conversations. But with this change, the dynamics of the board meeting may shift, becoming more focused on major strategic and risk issues and unscripted conversation, rather than on procedural or compliance matters. Fortunately, the widespread availability of videoconferencing and other secure communication capabilities make the real-time board a realistic possibility.

This fluid approach to communication, applied more broadly, can help boards to deliver against heightened expectations and the accelerated speed of business. Commissioners shared a number of ideas that blend the traditional board structure with new forms of interaction:

- **Encouragement of cross-fertilization and interaction between committee chairs, combined with periodic joint meetings of committees with overlapping or interlinked mandates**, such as the audit, risk, and technology committees.
- **Use of ad hoc or "special" board committees and other forms of organized collaboration.** Devoting board attention to an issue such as culture, cybersecurity, or technology in the form of a committee, even if temporary, can signal the importance of a new issue to the company. Ad hoc committees can also help the board to address matters that require specific expertise from existing directors who serve on different committees. Care needs to be taken, however, that such committees do not detract from the quality or inclusiveness of discussion at the full-board level or in the standing committees; for this reason, ad hoc committees should have clear terms of reference and "sunset clauses."
- **Use of advisory panels on critical strategic issues**, allowing, for example, outside CEOs from other industries to attend board meetings and give their own perspective on running a business, or inviting key clients to present their own insights.
- **Encouraging board members, and in particular the chair or lead director, to spend more time with key talent in the organization, going two or three levels below the C-suite**, in order to better understand issues and assess human capital.

RECOMMENDATION FOR THE BOARD

Consider the use of more flexible and informal mechanisms for board interaction, aided by technology, to enable robust oversight of new and fast-moving issues.

Ongoing Relevance of Board Structure and Operations

Board operations should not be set in stone. Just as board membership needs to be renewed from time to time and individual members need to be held accountable for their contribution, so a modern board needs to consider regularly whether its governance guidelines, committee charters, structure, and operating model are still fit for purpose or have become stale.

There are various models for this type of evaluation. One Commissioner suggested that it was good practice as part of the board's annual governance self-evaluation to

- consider whether new committees are needed,
- review external trends and practices to identify possible governance innovations,
- assess whether the board was conducting effective oversight, and
- look at opportunities to redistribute expertise across committees or assign new committee chairs.

It is a critical responsibility of the lead director and the committee chairs to ensure that this review is rigorous and not simply a perfunctory check-the-box exercise, mandated by external bodies. It is part and parcel of their duty to constantly enhance board/committee operations and oversight processes to bring the right focus and attention to those issues that are most critical to the company's long-term success.

Similarly, committee charter reviews can be used to consider changing how responsibilities are allocated between committees. One of our Commissioners advised boards to *"take a fresh look at the committee charters. Who owns this issue? Who should own it? If you have an ad hoc committee for a specific issue, is that committee still necessary?"*

Page 70 in the Toolkit offers guidance on the expanding mandates of the three standing board committees and on the regular review of their charters.

Apart from the board's annual review, board self-awareness can be encouraged by inviting activists or former regulators to share how they may perceive the workings, actions, decisions, and competencies of the board.

RECOMMENDATION FOR THE BOARD LEADER

Working with the chair of the nominating and governance committee, perform a rigorous governance review that covers the board's governance guidelines, operations, structure, and charter(s) every year.

INCREASING TRANSPARENCY AND ACCOUNTABILITY

To do its job effectively, the board must also be ***seen*** to do its job. That means explaining its modus operandi to external audiences that are keen to learn precisely how the governance of the company works and how key decisions are made.

The position of the Council of Institutional Investors (CII), an association representing corporate, public, and union employee-benefit funds and endowments, illustrates just how granular this desire for information can be. CII members, it says, are looking for evaluation-related disclosures that "explain how the lead independent director (or equivalent) filters information and insights across multiple levels and facilitates one-on-one discussions with individual directors."[38]

RECOMMENDATION FOR THE BOARD

Build greater internal and external transparency about how the board operates.

We do not have a single recipe for how to build better transparency, but the Commissioners offered some examples of enhancing transparency in practice:

- **Use the proxy statement and CD&A to tell a more comprehensive story about how the board operates.** This

[38] Glenn Davis and Brandon Whitehill, Council of Institutional Investors, "Board Evaluation Disclosure," *Harvard Law School Forum on Corporate Governance and Financial Regulation* (blog), January 30, 2019.

would include information about the board's rationale for its choice of leadership structure, details about the board-evaluation process, information about ongoing director education, and the board's overall philosophy regarding board leadership and succession planning, shared through disclosures or other channels of communication.

See disclosure examples from companies that offer more meaningful transparency into the workings of their boards on page 72 of the Toolkit.

- **Prepare designated members of the board to engage directly with investors on selected governance matters**, or to communicate with key stakeholders during crises.
- **Increase internal transparency about the board with employees and customers.** A few Commissioners shared that they have met with rising business leaders, new line managers, and leaders of diversity and inclusion initiatives to share what the board does and how it operates.

Transparency about how the board works is of limited value if the board itself simply goes through the motions and lacks a clear purpose. It is a curious fact that few boards clearly articulate what their mission statement is beyond boilerplate legal language. To reinforce accountability, it will become important that boards start to set objectives for themselves.

RECOMMENDATION FOR THE BOARD LEADER

Clearly define the board's annual objectives, and assess how the board delivers against them.

As one Commissioner put it, *"How many boards define specific goals for themselves? How do we know if we're fit for purpose if we don't articulate our own performance expectations?"* Another pointed out the obvious anomaly: *"We hold CEOs responsible and fire them depending on how they perform. We should do that for the board, too. Everyone should put down on paper what they are going to contribute and hold themselves accountable for delivering on those goals."*

Annually setting objectives as a board around structure, process, and behaviors, as well as around oversight practices, will help clarify key priorities for the board and contribute to establishing a cycle of continuous improvement. If done properly, it becomes a crucial mechanism for ensuring that the board remains fit for the future.

It's important that the setting of objectives and the evaluation processes be embedded into the board's routine. For example, the board and its committees should update their work plans regularly based on evaluation feedback, and should regularly review progress on action items stemming from evaluation results. Additional emphasis can be provided by including the agreed-upon annual goals for the board, board leader, CEO, and committee chairs at the front of every board and committee pack throughout the year, and by requiring committee chairs to include a report at every meeting on progress toward those goals.

The Royal Bank of Canada is a good example of a company that provides a lot of detail about the performance objectives and the desired behaviors of its board members. The bank's 2019 proxy statement details how individual directors are evaluated, and against what behavioral framework. See page 82 of the Toolkit for more detail about their board evaluation.

In an ideal world, board members would be regularly assessing the strength of the contribution they are making, and would recognize when that contribution was beginning to wane or when they were struggling to keep up with change. At that point, they would voluntarily decide it was time to move on. Unfortunately, this type of self-correcting board culture is only too rare, but the use of well-defined performance objectives and candid assessments can help change habits.

That is another reason why it is so important for the board leader to set clear expectations from the outset about what is expected in board service, including a formal and detailed job description and expected time commitment. The message needs to be reinforced that board service is a duty of finite duration, not an entitlement. The concept is not "serve as long as you want" but "serve as long as you are needed."

Clear criteria enable proper individual evaluations of board members to take place. These must be relevant (e.g., reflecting changes to corporate strategy), must encourage candor, and ensure that findings are translated into clear action. It's the responsibility of the independent chair/lead director to ensure that the evaluation process is more than just a check-the-box exercise.

Such assessments would be usefully complemented from time to time by a 360-degree management assessment of the board, enabling some helpful truths to be conveyed, in a measured fashion, about how the board's overall contribution could be strengthened. To ensure objectivity, it's sometimes useful to enlist third-party advisors to help in such exercises.

CONCLUSION

We have argued in this report that the rapid pace and complexity of change now taking place in global business calls for a new paradigm of board leadership. The issues are so multifarious and in many cases unfamiliar that board leaders are required as a matter of urgency to tap new sources of expertise and a new diversity of experiences and perspectives. They need to learn to harness these perspectives to best effect and organize discussions and decision-making processes to make the most of precious board time. They need to engage more proactively and effectively with their companies and management teams. They need to ensure that their boards become more transparent. They need to be clear about their purpose, and they need to hold themselves collectively and individually accountable for delivering strong performance.

The issues are so multifarious and in many cases unfamiliar that board leaders are required as a matter of urgency to tap new sources of expertise and a new diversity of experiences and perspectives.

Above all, board leaders need to show fortitude: courage, perseverance, and strength of mind. This is the preeminent quality required to help boards evolve rapidly along the lines described, and in that spirit we present our recommendations to readers.

PART 3

Summary of Recommendations

FOR THE BOARD LEADER

Strengthening Board Engagement

- Work with the CEO to step up board engagement with management, under the motto, "Trust, but verify."

Driving Strategic Board Renewal

- Develop your board renewal process to align with both current and future strategic needs and valid stakeholder expectations.

Building an Inclusive Board Culture

- Foster a collaborative culture that will get the most out of a more diverse group of directors.

Fostering Continuous Learning

- Develop and maintain a targeted, continuous learning agenda for the board.

Building Agility into Board Operations and Structure

- Periodically review agenda effectiveness and assess how the board is spending its time to ensure that the most critical issues receive appropriate attention.
- Working with the chair of the nominating and governance committee, perform a rigorous governance review that covers the board's governance guidelines, operations, structure, and charter(s) every year.

Increasing Transparency and Accountability

- Clearly define the board's annual objectives, and assess how the board delivers against them.

FOR THE BOARD

Setting Expectations for the New Board Leader

- Define, and periodically refine, the characteristics and role requirements expected of your next board leader in order to prepare candidates to lead the board into the future. Consider emphasizing the importance of fortitude and adaptability when updating the leader's role definition.
- Evaluate the current process that will be used to select the designated board leader to ensure that it is a fair, transparent, and sufficiently future-oriented process.

Strengthening Board Engagement

- Review the protocol for the flow of information to the board to ensure appropriate transparency on company performance and risk.

Driving Strategic Board Renewal

- When recruiting "expert" directors, balance the emphasis on proven, relevant, technical expertise with the candidate's ability to learn, to add value in other areas, and to collaborate.
- In renewing the board, acknowledge the importance of tenure. Boards should strive for a mix of tenures on the board—for example, maintaining a composition that includes at least one director with <5, 5–10, and >10 years of service.

Building Agility into Board Operations and Structure

- Consider the use of more flexible and informal mechanisms for board interaction, aided by technology, to enable robust oversight of new and fast-moving issues.

Increasing Transparency and Accountability

- Build greater internal and external transparency about how the board operates.

APPENDIX

Related Resources

Report of the NACD Blue Ribbon Commission on the Effective Lead Director (Washington, DC: NACD, 2011) The Commission emphasized that while the role includes important process-oriented responsibilities (chairing executive sessions, collaborating with the chair/CEO on setting the board agenda, etc.), the role extends well beyond those areas. In the Commission's view, lead directors are key players in shareholder communications and relationships with outside advisors and are essential to improving board dynamics, facilitating effective communication among independent directors and between directors and the CEO/management team, helping the board avoid "groupthink," supporting effective board composition and succession planning, and providing leadership in crisis situations.

Report of the NACD Blue Ribbon Commission on Board Leadership (Washington, DC: NACD, 2012) This Commission recommends that "the leader of the independent directors should possess the appropriate qualities for the role and be someone who is respected by all directors and the company leader" (p. xiv), and notes that it is "the relationships and behavior that determine the effectiveness of board leadership, more than the particular structural option that is chosen." (p.viii). The report provides directors with the first profession-wide clarification of the division of specific board leadership roles between the leader of the independent directors and the leader of the company. It also provides guidance on leading the "independent work" of the board, spells out the characteristics necessary for board leaders to succeed, defines the leadership roles of independent committee chairs, and provides guidance on the process of conducting executive sessions.

Report of the Blue Ribbon Commission on Building the Strategic-Asset Board (Washington, DC: NACD, 2016) The Commission recommended that the nonexecutive chair or lead director, along with the nominating and governance committee, oversee the board's continuous-improvement activities, including establishing and maintaining governance principles, evaluations, recruiting and succession planning, continuing education, and shareholder communications. The tools provided in the report's appendices inform and improve boardroom practices in seven areas, including board leadership and oversight responsibilities, board composition and succession planning, recruiting and onboarding new directors, board evaluation processes, continuing education for directors, tenure-limiting mechanisms, and communication with shareholders and stakeholders.

The following NACD online resource centers are updated regularly and contain a range of current thought leadership, expert commentary, boardroom tools, and links to related programs and events:

Board Evaluations

Director Onboarding

Emerging Issues

Role of the Lead Director/Nonexecutive Chair

TOOLKIT MATERIALS

Blue Ribbon Commission Toolkits contain materials that can help directors to implement the report's recommendations (e.g., suggested questions for boards to ask themselves and/or members of management, examples of committee charters, board-level reporting dashboard templates, examples of disclosures, etc.). NACD consistently receives feedback from directors that these tools significantly enhance the value of Blue Ribbon Commission reports. While the core Blue Ribbon Commission report and its recommendations will be available to the public, access to Toolkit materials is reserved for members of NACD.

The table below indexes the contents of the Toolkit according to the priorities for action outlined in Part 2 of the Blue Ribbon Commission Report.

Priority for Action	Commisson Guidance	Toolkit Materials
Setting Expectations for the New Board Leader	• Define, and periodically refine, the characteristics and role requirements expected of your next board leader in order to prepare candidates to lead the board into the future. Consider emphasizing the importance of fortitude and adaptability when updating the leader's role definition. • Evaluate the current process that will be used to select the designated board leader to ensure that it is a fair, transparent, and sufficiently future-oriented process.	• Attributes of a Lead Director • Board Leadership Structure
Strengthening Board Engagement	• Work with the CEO to step up board engagement with management, under the motto, "Trust, but verify." • Review the protocol for the flow of information to the board to ensure appropriate transparency on company performance and risk.	• Changing Board Expectations and the Future of the CEO • 20 Questions for Management on the Future of the Business • Case Study: Netflix's Approach to Increased Business Transparency
Driving Strategic Board Renewal	• Develop your board renewal process to align with both current and future strategic needs and valid stakeholder expectations. • When recruiting "expert" directors, balance the emphasis on proven, relevant, technical expertise with the candidate's ability to learn, to add value in other areas, and to collaborate. • In renewing the board, acknowledge the importance of tenure. Boards should strive for a mix of tenures on the board—for example, maintaining a composition that includes at least one director with <5, 5–10, and >10 years of service.	• Director Compensation as a Catalyst • Case Study: Foot Locker's Approach to Strategically Diversifying the Board • Future Proofing Director Skill Sets

Priority for Action	Commisson Guidance	Toolkit Materials
Building an Inclusive Board Culture	• Foster a collaborative culture that will get the most out of a more diverse group of directors.	• Board Effectiveness Checklist
Fostering Continuous Learning	• Develop and maintain a targeted, continuous learning agenda for the board.	• Case Study: BMO's Approach to Continuous Education for Directors
Building Agility Into Board Operations and Structure	• Periodically review agenda effectiveness and assess how the board is spending its time to ensure that the most critical issues receive appropriate attention. • Consider the use of more flexible and informal mechanisms for board interaction, aided by technology, to enable robust oversight of new and fast-moving issues. • Working with the chair of the nominating and governance committee, perform a rigorous governance review that covers the board's governance guidelines, operations, structure, and charter(s) every year.	• Cultivating the Long-Term Habits of a Highly Effective Board • Agenda Setting for the Full Board • Expanding Committee Scope • Reassessment of Ongoing Committee Charters
Increasing Transparency and Accountability	• Build greater internal and external transparency about how the board operates. • Clearly define the board's annual objectives, and assess how the board delivers against them.	• Using Proxy Disclosure to Increase Boardroom Transparency • Investor Expectations of Board Leaders • Vanguard's Engagement Guide • 10 Questions to Evaluate a Board's Fit for Purpose • Case Study: Royal Bank of Canada's Approach to Practicing Board Accountability

Attributes of a Lead Director

Key Skills for Board Leaders

KPMG Board Leadership Center

Below are a selection of key attributes for lead directors as identified by KPMG through their Lead Director Initiative, where they directly interviewed directors about their experiences.

HOW TO USE THIS TOOL: Directors can use this list to identify any gaps in their current lead director's skill set.

LEADERSHIP SKILLS

- Builds consensus around the proposed direction of the company's strategy
- Encourages the board, CEO, and management to develop a vivid picture of the future and its impact on strategy
- Sets the board's culture by example
- Collaborative, and a consensus builder
- Helps the CEO read the board correctly and vice versa
- Open to diverse and dissenting points of view from board members
- Ability to respectfully move from a debate to a decision at the right time

COMMUNICATION SKILLS

- Capable of building and maintaining strong, cooperative relationships
- Excellent at communicating, including sensitive messages from the board to the CEO and to fellow directors
- Constructive facilitator that serves as the coordinating point for dialogue interaction and feedback
- Good listener with the ability to interpret and synthesize various points of view
- Master of group dynamics, including body language in the boardroom

BACKGROUND AND TENURE

- The authority to represent the board in shareholder and stakeholder communications
- Free from any economic or egotistical need for the role

OTHER SKILLS

- Strategic thinker, constantly keeping the big picture in view
- Truly independent and not led by management
- Has the time to dedicate to the larger role
- Constant learner—stays up to date on the most recent trends and thinks peripherally

ABOUT KPMG'S LEAD DIRECTOR INITIATIVE

Convened by the KPMG Board Leadership Center, the Lead Director Initiative explores critical boardroom challenges and priorities through the lead director/independent chair lens. Conducted under the Chatham House Rule, these candid conversations are designed to share experiences and spark boardroom conversations that help elevate board leadership and effectiveness.

Board Leadership Structure

Responsibilities of Nonexecutive Chair and Independent Lead Director

Sidley Austin LLP

HOW TO USE THIS TOOL: Directors and corporate secretaries can use the information below to better understand the typical roles and responsibilities of the nonexecutive chair and the independent lead director on the board of directors of a US public company.

Sidley Austin LLP provides this information for educational purposes only. It should not be construed or relied upon as legal advice. Given the complexities of law, regulation and practice in this area and the variety of company-specific factors that need to be considered, this information should not be applied to any particular situation without the advice of an attorney experienced in this area of law.

INTRODUCTORY NOTE

The board of directors is responsible for its own structure and processes and needs to apply its business judgment to board leadership decisions. The board leadership structure should be determined based on a number of factors, including the board's culture and practices, business circumstances, and the expectations, personal characteristics, leadership styles, and relationships of the potential leaders. Nonexecutive chairs are typically appointed by the full board, whereas independent lead directors are typically appointed by the board's independent directors.

Board leadership roles are context dependent and evolve depending on the circumstances of the company and the board (e.g., a nonexecutive chair may assume a more active role during a crisis, particularly with respect to CEO and director succession, strategy, and communications with shareholders and others). The board should ensure that it defines the independent board leadership role and clearly delineates that person's responsibilities. US public companies are required to disclose the board's rationale for combining or splitting the chair and CEO roles; at companies where the chair and CEO roles are combined, they are required to disclose whether the company has a lead director and to disclose the specific role the lead director plays in the leadership of the board.[1]

Set forth below are the typical responsibilities of the nonexecutive chair and the independent lead director (who may be appointed when the chair and CEO roles are combined in one individual, or when the chair and CEO roles are separate, but the chair does not qualify as "independent").[2]

[1] Regulation S-K, Item 407(h).

[2] See Holly J. Gregory, "Board Leadership and the Role of the Independent Lead Director," *Practical Law* (Mar. 2018), for data on independent lead director responsibilities at Dow 30 companies.

<table>
<tr><th>Nonexecutive Chair</th><th>Independent Lead Director</th></tr>
<tr><td colspan="2">Overview</td></tr>
<tr><td>

Serve as the leader of the board of directors (as opposed to the CEO, who serves as the leader of the company).
Fulfill the specific responsibilities listed below, as well as such other duties as may be necessary for the board to fulfill its responsibilities or as may be requested by the board as a whole, by the non-management directors, or by the CEO. Note that it may be useful for the chair to serve as an ex officio member of each committee of the board.

</td><td>

Serve as the leader of the nonmanagement directors.
Fulfill the specific responsibilities listed below, as well as such other duties as may be necessary for the board to fulfill its responsibilities or as may be requested by the board as a whole, by the nonmanagement directors, or by the chair/CEO. Note that it may be useful for the lead director to serve as the chair of the corporate Governance and Nominating Committee and/or as an ex officio member of each committee of the board.

</td></tr>
<tr><td colspan="2">Board/Committee Meetings and Agenda</td></tr>
<tr><td>

Chair all regular and special meetings, and executive sessions of the board. Authorized to call board meetings and executive sessions.
Provide leadership and direction to the board as to how the board operates (including facilitating discussion and decision making and managing tensions).
Work with the corporate secretary to ensure that draft board minutes accurately reflect what occurred at meetings.
Coordinate the work and meetings of the board and its committees.
Support committee chairs as appropriate in the performance of their designated roles and responsibilities.
In collaboration with the CEO and, as appropriate, committee chairs, schedule board and committee meetings and executive sessions, develop and approve agendas, define the scope, quality, quantity, and timeliness of information to be provided by management regarding agenda items, and approve information provided to directors.

</td><td>

Chair all executive sessions of the nonmanagement directors. Authorized to call executive sessions and, at some companies, board meetings.
Chair board meetings when the chair is not present or upon the request of the chair.
Coordinate the work and meetings of committees.
Support committee chairs as appropriate in the performance of their designated roles and responsibilities.
In collaboration with the chair/CEO and, as appropriate, committee chairs, schedule board and committee meetings and executive sessions, develop and approve agendas, define the scope, quality, quantity, and timeliness of information to be provided by management regarding agenda items, and approve information provided to directors.

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Nonexecutive Chair	Independent Lead Director
Coordination and Relationship With Management	
• Coordinate feedback to the CEO regarding issues discussed in executive sessions. • Serve as liaison to facilitate communications between directors, committee chairs, the CEO, and other senior executives. • Provide advice and counsel to the CEO and other senior management. • Serve as an informational resource for other directors. • Actively participate in strategic planning and monitoring of business-plan execution and company performance.	• Coordinate feedback to the chair/CEO regarding issues discussed in executive sessions. • Serve as liaison to facilitate communications between directors, committee chairs, the chair/CEO, and other senior executives. • Provide advice and counsel to the chair/CEO and other senior management. • Serve as an informational resource for other directors.
Communication and Engagement	
• Act as spokesperson for the board in circumstances where it is appropriate for the board to have a voice distinct from that of management. • Engage with shareholders who request direct communication and consultation with the board. • Communicate where appropriate with rating agencies, proxy advisory firms, regulators, and interested parties on behalf of the board. • Provide "air cover" to the CEO as appropriate to alleviate pressure during a crisis (e.g., assume some of the CEO's responsibilities as needed to enable the CEO to focus on managing the company while the chair manages the crisis).	• Act as spokesperson for the board in circumstances where it is appropriate for the board to have a voice distinct from that of management. • Engage with shareholders who request direct communication and consultation with the board. • Communicate where appropriate with rating agencies, proxy advisory firms, regulators, and interested parties on behalf of the nonmanagement directors.

<table>
<tr><th>Nonexecutive Chair</th><th>Independent Lead Director</th></tr>
<tr><th colspan="2">Corporate Governance and Compliance</th></tr>
<tr><td>

Develop and implement, with the CEO and the Corporate Governance and Nominating Committee, the procedures governing the board's work (including the Corporate Governance Guidelines).
Review potential conflicts of interest.
Actively participate in discussions with the Corporate Governance and Nominating Committee on matters relating to board and committee composition and leadership and director succession (including retaining directors and managing resignations as needed, particularly during a crisis).
Together with the chair of the Corporate Governance and Nominating Committee, interview director candidates and communicate to prospective directors any invitation to join the board.
Together with the chair of the Corporate Governance and Nominating Committee, oversee director induction and continuing education programs.
Together with the chair of the Audit Committee, lead and support the board in providing oversight of the company's financial reporting and internal controls for audit, compliance, and risk management.
Authorize or recommend the retention of outside advisors and consultants who report directly to the board on board-related issues.
Lead the board in its discussions and, together with the CEO, its formulations of expectations regarding the "tone at the top" and culture of compliance within the company.

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Develop and implement, with the chair/CEO and the Corporate Governance and Nominating Committee, the procedures governing the board's work (including the Corporate Governance Guidelines).
Review potential conflicts of interest.
Participate in discussions with the Corporate Governance and Nominating Committee on matters relating to board and committee composition and leadership, and director succession.
Together with the chair of the Corporate Governance and Nominating Committee, interview director candidates and communicate to prospective directors any invitation to join the board (unless the chair/CEO communicates such invitations).
Together with the chair of the Corporate Governance and Nominating Committee, oversee director induction and continuing education programs.
Together with the chair of the Audit Committee, lead and support the board in providing oversight of the company's financial reporting and internal controls for audit, compliance, and risk management.
Authorize or recommend the retention of outside advisors and consultants who report directly to the board on board-related issues.

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Nonexecutive Chair	Independent Lead Director
CEO Selection, Evaluation, and Compensation	
• Actively participate in CEO succession (particularly during a crisis). • Together with the Compensation Committee, determine the process for evaluating and compensating the CEO. • Together with the chair of the Compensation Committee, communicate to the CEO the results of the board's evaluation of the CEO.	• Provide oversight of chair/CEO succession. • Together with the Compensation Committee, determine the process for evaluating and compensating the chair/CEO. • Together with the chair of the Compensation Committee, communicate to the chair/CEO the results of the board's evaluation of the chair/CEO.
Board Evaluation	
• Together with the chair of the Corporate Governance and Nominating Committee, coordinate self-evaluations of the board, its committees, and/or individual directors.	• Together with the chair of the Corporate Governance and Nominating Committee, coordinate self-evaluations of the board, its committees, and/or individual directors.
Shareholder Meetings	
• Recommend to the board for its approval an agenda for each meeting of shareholders which covers all matters requiring shareholder action. • Provide leadership to the board in the establishment of positions the board should take on issues to be voted on by shareholders. • Preside at all shareholder meetings. • At some companies, the chair has authority to call special meetings of shareholders.	• Recommend to the board for its approval an agenda for each meeting of shareholders which covers all matters requiring shareholder action. • Provide leadership to the board in the establishment of positions the board should take on issues to be voted on by shareholders.

Changing Board Expectations and the Future of the CEO

Sample Recruitment and Evaluation Criteria in Times of Disruption

NACD, Heidrick & Struggles

From changing consumer tastes and expectations to breakneck disruptions in technology, today's dynamic business environment will require a chief executive who possesses a set of skills and experiences that are different from those that were needed in the past. To thrive in this environment, firms will need a corporate leader who understands the broader trends affecting the company's industry, someone who can evaluate potential areas of risk and growth and is able to leverage that information to inform strategy. There is no one-size-fits-all profile for such a CEO; but as boards develop recruitment and evaluations criteria, directors can consider the following attributes:

HOW TO USE THIS TOOL: Directors can leverage this tool to develop and refine recruitment or evaluations criteria for their companies' chief executives.

Vision. The CEO has articulated a clear vision for the company that makes good business sense. This vision provides the foundation for building the business.

- Moves fast to act decisively on pressing priorities while maintaining progress on longer-term initiatives vital to sustainable success
- Has a strong understanding of new developments or substantive changes in our industry's landscape
- Defines an enduring and well-articulated purpose, not only to serve as strategy, but also to provide a sense of "true north" for our company

Integrity & leadership. The CEO supports corporate culture by setting a guiding philosophy that is well understood, widely supported, consistently applied, and effectively implemented. He or she has developed an organization where productivity, morale, and teamwork are properly incentivized.

- Embeds a culture of innovation and low resistance to change into our organization
- Encourages feedback mechanisms that foster transparency at all levels of the organization
- Is receptive to subordinates sharing bad news or missteps, and insists that these are shared early
- Reliably shares information with the board about potential problem areas or strategic miscalculations

Strategic planning. The CEO leads the development of a long-term strategy and establishes objectives that meet the needs of shareholders, customers, employees, and all corporate stakeholders. He or she ensures consistent and timely progress toward strategic objectives.

- Has a broad understanding of the corporation's products, technologies, customers, and operations
- Effectively communicates the potential impact of broader environmental changes on our organization

Financial results and performance. The CEO establishes appropriate annual financial goals and long-term financial objectives, and reliably achieves these goals.

- Holds him or herself accountable to performance metrics and targets
- Ensures that adequate resources are in place to achieve short- and long-term goals

Succession planning. The CEO develops, attracts, retains, motivates, and supervises an effective top-management team capable of achieving objectives. The CEO provides for management succession.

- Draws strength from a truly diverse senior team, comprising talented individuals who each bring a unique line of sight to our company's challenges
- Delegates authority, and is comfortable trusting others to get the job done
- Shows a willingness to step down when the time is right

Stakeholder relations. The CEO serves as chief spokesperson, communicating effectively with shareholders and all stakeholders.

- Is highly motivated and effectively motivates others to win buy-in and inspire action among employees at our organization
- Expertly engages others within and outside of the organization (e.g., employees, directors, customers, clients, investors, analysts, regulators, the media, etc.)

The information found herein was developed from the following resources: *A Guide to Reading your CEO's Leadership Style, Leading Transformation: Five Imperatives for CEOs*, *Report of the NACD Blue Ribbon Commission on Adaptive Governance*, and *Success at the Top: CEO Evaluation and Succession*. Additionally, insights shared by NACD members over the course of interviews, conducted from September 2018 to January 2019, were utilized.

20 Questions for Management on the Future of the Business

Oliver Wyman / Marsh & McLennan Companies

HOW TO USE THIS TOOL: Directors can use this tool to help facilitate a robust and dynamic conversation about strategy with management to assist them in navigating the future of the business.

Boards and management teams face a critical challenge: how to craft strategy in the face of trends that have the potential to make existing business models obsolete, change industry structure or operating conditions, derail growth, or provide a transformative opportunity for the long-term strategy of the organization.

It is vital that boards and management have robust and incisive strategy discussions that focus on opportunities, risks, and overall firm direction over the next 5–10 years. Done well, strategy discussions create an opportunity for management and the board to pressure test assumptions underlying strategy and hone a clearer vision for the organization.

In reality, for most organizations, there is limited pure "strategy" discussion between the directors and the management team. More often, discussions focus on strategic planning—addressing specific business opportunities and risks over the next two-to-three years—with insufficient time or not enough effective processes to support a dedicated focus on big-picture questions and discussions.

If boards are to better serve their organizations in navigating to the future, it is critical to improve strategy discussions. There are a number of challenges for boards in driving the "right" discussion, but the benefits of effective strategy discussion are significant (see Exhibit 1).

EXHIBIT 1

Challenges and benefits of strategy discussions

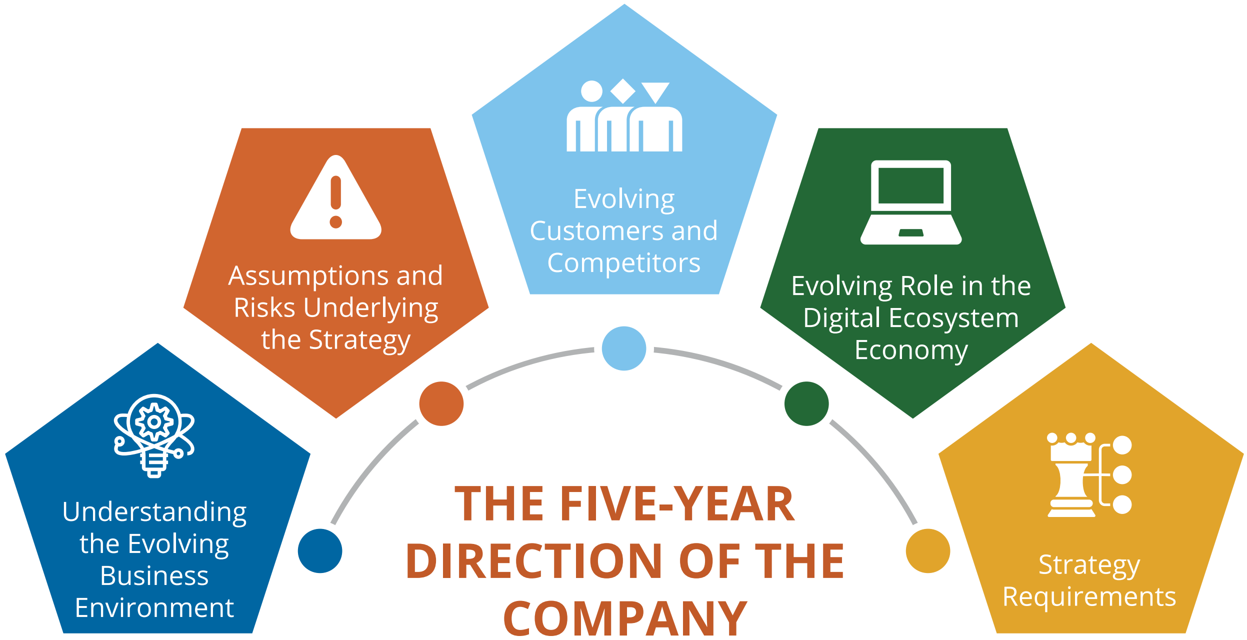
Challenges with most strategy discussions	Benefits of an "effective" strategy discussion
Board lacks understanding of business or trends and is unable to challenge the strategic direction of management	Management benefits from the accumulated wisdom and experience of the directors as a sounding board and expert panel
Limited board diversity presents high risk of groupthink	Management receives positive challenges and increased support from the board
Board is involved late in key decisions with emphasis on approve or decline, with minimal time to reflect on information presented or limited ability to challenge management constructively	Management team and board operate in full transparency, enabling mutual support and positive challenge
Board lacks visibility and/or understanding of key risks and potential problems	Debates that are well informed, constructive, and provide real added value for all stakeholders
Board seen as a "rubber-stamping" body for strategic decisions and associated risk appetite	Quicker convergence on decisions without compromising ability to take on divergent views

GETTING TO AN EFFECTIVE STRATEGY DISCUSSION

Getting to a better strategy discussion involves making changes to the timing, structure, and content of the discussion. In terms of timing, the directors must be involved earlier in the typical strategy-setting process so that their role is not simply to approve decisions but to support a robust and dynamic discussion.

Boards and management teams can also apply different techniques to the structure of discussions to facilitate creative interactions. For example, simply changing the format of board meetings to a "studio style," or changing where members sit around the boardroom's table can shift the dynamics and conversation in the room. Boards can also actively implement alternative decision-making techniques. Techniques such as "red teams" (a group of board members providing deliberately provocative perspectives to stimulate debate), "10th man" (avoiding groupthink by assigning one board member to be contrarian should the board unanimously agree on something), or "six thinking hats" (considering ideas in six different thinking styles including optimism, logic, creativity, and emotion), can serve as powerful tools to generate greater mental agility around the board table.[1]

Finally, perhaps the most important role the board can play in strategy discussions is in the questions they put to the executive team about the future of the business, its operating environment, and the team's assumptions about the future. An effective dialogue allows the board and management to challenge assumptions and test future scenarios.



[1] Michelle Daisley and Margarita Economides, "Boardrooms Are Stuck in the 20th Century. Here's How We Change That," www.Brinknews.com, June 28, 2019.

20 QUESTIONS ON THE FIVE-YEAR DIRECTION OF THE COMPANY

Understanding the Evolving Business Environment

1. What are the implications of the interrelations between megatrends—including exponential digital technological change, climate change, increasing geopolitical instability, heightened investor and social activism, and hypertransparency—for our business over the next five years?
2. Given the megatrends, what do we have to do?
3. How will our organization's purpose evolve over the next 5 years and over the next 10 years?
4. How might our license to operate be constrained or expanded in an evolving business context?

Assumptions and Risks Underlying the Strategy

5. What are the key assumptions underlying our strategy and business model, and what plausible business-environment scenarios might disrupt our long-term vision and planning assumptions?
6. What are the risks we are assuming as part of this strategy, and are our risks concentrated or dispersed across business areas?
7. Are we just doing "line extension," or are we doing real innovation? If not, why not?
8. Given our strategy, what could we do to accelerate the achievement of our strategic goals?
9. How does this strategy strengthen the future of the organization?

Evolving Customers and Competitors

10. What are our beliefs about evolving customer preferences and how our customers will want to consume the core value we offer?
11. How do we reach, acquire, and serve customers in the future?
12. What will be the biggest shifts in our customer base? What is the time frame for these shifts?
13. How do we create and maintain differentiation against our competitors?
14. Who—or what—will be our competitors in the future? Are these competitors emerging from within our current sector, or are future competitors arising from other evolving industries?

Evolving Role in the Digital Ecosystem Economy

15. How is our ecosystem economy evolving, and what or who is entering or exiting our ecosystem?[2]
16. How will our role in the ecosystem shift, and what friction and latency will we remove?
17. Where are we the friction and latency in the ecosystem, and where and how could we be disintermediated?

Strategy Requirements

18. Which capabilities do we need to acquire and retain to achieve our strategy (including talent, production, technical, partners, etc.).
19. How can we best (re)organize our assets and business model to drive future revenues?
20. Does the organization have the necessary agility to respond to new opportunities and a changing risk environment, and where do we need to focus to improve our agility?

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[2] See "As We Enter the Era of the Ecosystem Economy, Are We Prepared for the Risks?" by Leslie Chacko, www.brinknews.com, June 11, 2019.

CASE STUDY

Netflix's Approach to Increased Business Transparency

Netflix's disruption model has made its way to the boardroom. In an effort to increase transparency between the board and senior management, Netflix gives its board short memos, 20 to 40 pages, with links to all underlying data and information presented. In addition to the open access to information, directors can send questions to the author and receive an answer before the meeting even begins. Information sharing continues as the board memo is circulated to all board members and the top 90 executives of the company. This is viewed as a way to create alignment among leaders on strategic challenges and goals. As a Netflix director noted in a Stanford case study, "We're exposed to a huge amount of information about the company. As a result, the board meetings are a relatively small amount of presentation and a fair amount of questions, and those questions are pretty well informed."[1]

While other company's board members may attend site visits, Netflix increases operational transparency by having board members attend monthly or quarterly meetings to observe what's happening at the line level, in addition to regular board and committee meetings. Members who attended a meeting are then encouraged to share with the full board what they observed. As Netflix founder and CEO Reed Hastings noted, "It's a good opportunity for board members to see the team in action and to meet several layers of the team. . . . You end up with a more committed board, more knowledgeable board, not people who just drop in for dinner and a meeting."[2]

As directors consider adopting this model for their own boards, it is important to consider current directors' skill sets and company culture.

	Standard Practice	Netflix Practice
Type of Meeting	4–8 board meetings a year	Periodically attend monthly and quarterly senior management meetings in addition to board meetings
Information Communication	PowerPoint slides and binders for board prep	30–page memos with analysis and links to all data in internal system
Control of content	CEO has ultimate control over the board book	Managers share everything with the board that they see and use to create board materials

KEY QUESTIONS FOR BOARDS TO CONSIDER

- What is the ratio of data to insights that management provides to the board in advance of board meetings?
- Is the board meeting with enough members of the management team? Is the board able to take a deep dive with various management members, or is the conversation limited to one or two questions?
- What are the avenues that the board has to interact with management outside of the boardroom?
- Are the meeting materials we receive aiding our understanding of the company in their current state? Have we considered making changes to the format of our board materials?

[1] David Larcker and Brian Tayan, "Netflix Approach to Governance: Genuine Transparency With the Board," *Stanford Closer Look Series* (May 2018), p. 3.
[2] Ibid., p. 2

Director Compensation as a Catalyst

Building a Better Board

Pearl Meyer

HOW TO USE THIS TOOL: As the scope of board oversight increases, many boards are starting to rethink their director-compensation program. Directors can use this tool to help evaluate whether or not the current compensation structure serves a fit-for-purpose board.

The nature of board leadership is evolving. The role of directors is growing more demanding and complex, and there is a sense of urgency about keeping pace. In just a few short years, board visibility has been elevated and directors are seen as almost immediately accountable for emerging issues like environmental, social, and governance (ESG) concerns, data breaches and cybersecurity, #MeToo scandals and their aftermath, corporate culture, and the list goes on. Of course, this is also true for the management team, and from a compensation standpoint, what Pearl Meyer advises on that front is *align pay to business and leadership strategy*.

So what can be done for the board to help them enact changes that are clearly going to be needed in the near term? Our counsel is consistent: align pay to strategy. Just as long-term business and leadership strategies are increasingly aligned to correlating measures of performance and pay for executives, the board's own vision, mission, and oversight strategy should similarly be aligned with directors' compensation.

This may not be as radical as it might initially seem. The full board spends a great deal of time in ongoing discussions. *"Do we have the right people doing the right things? Is our leadership team fit for its purpose?"* Historically, directors have not spent as much time asking these questions of the board. However, it could be a natural extension to say the board's talent profile and composition could benefit from this type of examination. *"Do we have the necessary experience and specialized expertise on our board? Does our board makeup accurately reflect our company, customers, and other stakeholders? Does our director-compensation program serve a 'fit-for-purpose' board?"*

We believe that for each of three current trends impacting boards, a reimagining of typical director pay practices might provide some impetus to enact change:

1. The expansion of the board's roles and responsibilities
2. The potential need to reorganize its structure
3. The pressure to reflect a diverse population in terms of gender, race/ethnicity, age, and experience

THE CHANGING NATURE OF BOARD DUTY AND INVOLVEMENT

We have seen the line between board oversight and management involvement blur over the last few years. Among every constituency—investors, employees, media, and the public at large—the board is viewed as a responsible party in determining how and if the company executes against plan, and it certainly bears the weight when things go awry. Given the power of today's activist investor over an underperforming board, it may no longer be relevant to use the old standby notion of "noses in, fingers out" when referring to the natural division between directors and the C-suite.

Even with more "traditional" duties of the board, such as leadership-pipeline oversight and CEO succession planning, the degree to which directors are expected to be involved and connecting the dots along with management to the larger business strategy is much greater than in the past.

If boards are playing a more active role—less of a simple approval—is it time to think about performance-based pay? If we're asking directors to be more involved in operations and decision making, should they be held accountable for those decisions? There are pros and (most certainly) cons with performance-based pay for directors, with the cons easy to point out:

- Potential to compromise the financial audit function of the board
- Could move the focus of board attention away from long-term business strategy and toward short-term performance
- Might create conflicts of interest and raise issues of independence

While it's not quite as outrageous an idea as it's been considered in the past, a board would have to give great consideration to how it would incorporate performance pay for directors in a way that didn't create conflict, and then be very transparent when putting the plan in place about why it is being done. Think about modest rewards for achieving goals that would not compromise fiduciary duties.

One example where this concept might be a worthwhile tool is in the emerging ESG arena and the use of low-weighted, low percentage, performance-based director pay around a balanced scorecard that considers if/how different stakeholders are being taken into account by the company in the context of ESG issues. This could provide inspiration and an entry point for this new and "extra" level of board work that might otherwise be too daunting to tackle (although at significant reputational and even fiduciary risk). It would send a powerful signal to the market on the importance of key environmental and social goals to the company.

Not only are the areas of responsibility growing, the time requirements for directors are also more demanding and generally without corresponding increases in pay (which have remained in the low single digits over the last few years).[1] In our online survey this past spring, 32 percent of respondents in public companies expect their time commitments to be higher this year. Yet, consistent with most companies' retainer-only pay model, 60 percent of responding companies don't provide additional director compensation for higher-than-expected work demands. We found that just 21 percent pay for special committees and 6 percent for unusual events like crisis public-relations situations, activist investors, or mergers/acquisitions.[2] With today's board work demanding highly qualified, experienced, and trusted individuals—the leading minds in business—it's increasingly imperative to bring on the "just-right" directors for a given company and appropriately compensate them for their time, talent, and personal risk.

THE EVOLUTION OF THE BOARD'S OPERATIONAL STRUCTURE

Typical director-compensation plans track to current "normal" board structure comprising a board chair/lead director and independent directors who may variously sit on or chair the audit, nominating/governance, and compensation committees. Usually, companies provide a premium for the independent nonexecutive or lead director and may provide some additional compensation for those who serve on committees and/or a premium for committee chairs. Additional meeting fees for committee service was historically a common practice but has been on the decline (almost 50% for public companies in 2013 and down to less than a quarter in 2018).[3]

Does this structure and its corresponding pay enable the most efficient and productive board? We are

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[1] NACD, *2018–2019 Director Compensation Report* (Arlington, VA: NACD, 2019), p. 12.
[2] Pearl Meyer, *On Point: 2019 Non-Employee Director Pay Practices Survey*.
[3] NACD, *2018–2019 Director Compensation Report* (Arlington, VA: NACD, 2019), p. 13.

beginning to see significant shifts in how boards may be organizing to better serve the needs of their company. For example, we found that nearly 20 percent of the 1,400 US public companies analyzed in the *2018–2019 Director Compensation Report* have formally expanded the purview of their compensation committees to incorporate some aspect of leadership and talent. Committee names include the compensation and management development committee, leadership and compensation committee, management performance committee, and people resources committee, just to name a few.[4]

One debate we have been hearing more frequently is who owns director compensation? This depends on whether the view is that board compensation is clearly a pay issue (67% of our survey respondents indicate the compensation committee reviews/proposes changes to the director pay program) or if it is a governance concern (19% noted the nomination/governance committee has this responsibility).[5] The nom/gov view could signal a coming shift whereby compensation is deployed more as a tool to drive a particular strategy.

THE PRESSURE ON BOARD COMPOSITION

Can we use director-pay programs to support the calls for board refreshment and use that turnover to more quickly improve diversity?

For example, when it comes to age and experience diversity—bringing in new generations and/or those with in-demand experience who may not yet be in the C-suite—rethinking the mix of cash and equity in some creative ways could help attract a different economic demographic. Such a director profile might benefit from a cash-equity balance closer to 50-50, or a guaranteed, annual, board-education stipend.

Companies have come to rely on mandatory retirement (currently used by 81% of the Top 200 companies, compared to only 20% in 1995)[6] to address board refreshment, but that may not always provide the change needed, when it's needed—particularly if a board needs to quickly rectify a diversity issue or bring on specialized talent. Maybe companies need to devise a carrot to accompany this stick. Bygone pension plans were designed to transition long-tenured directors off the board with multiyear payouts post-termination. Is there a way to create a new, but similar, concept that would be acceptable to shareholders?

DISCUSSION QUESTIONS FOR EXPLORING BOARD STRUCTURE

- At the full-board level, what would cause our pay structures to be different from the current norm?
- Has there already been enough change to the nature of our board service that the typical compensation structure now hinders our performance?
- Do we have the right committee structure, and if there are changes made, how does that impact pay?
- Should we rethink which items belong to the committees versus which items should have full-board oversight?
- How do we ensure that all urgent issues have been brought to the full board's attention, without relitigating everything at the board level?
- Should we "tier" committees (and corresponding compensation) to reflect specialized expertise, extraordinary time commitments, and/or level of personal risk exposure?
- Do significantly larger time commitments or highly differentiated roles warrant differentiated pay?

[4] Pearl Meyer, "The Compensation Committee Agenda for 2019: Top Five Concerns," an article appearing in Knowledge Share on pearlmeyer.com, April 2019.
[5] Pearl Meyer, *On Point: 2019 Non-Employee Director Pay Practices Survey*.
[6] Pearl Meyer, "The Compensation Committee Agenda for 2019: Top Five Concerns," an article appearing in Knowledge Share on pearlmeyer.com, April 2019.

WITH DISCOMFORT COMES GROWTH

We know the increasing pressure on directors comes not only from expanded roles, responsibilities, and time commitments; it also comes from the weight of close, public inspection. There has been a lot of discussion about proxy advisors looking at board pay and about plans to flag very highly paid boards and/or individuals. While some may feel safe because they don't have 97th percentile compensation plans, nobody is safe from the perception that *"You're paid too much for the job you're doing, and the job you're doing is inadequate."*

Just as we have encouraged compensation committees to allow proxy advisors' and other constituencies' perceptions to *inform* their executive plans, but not *dictate* those plans, the time may have come for the board to do the same for itself. Our recent data collection shows that director pay levels have been fairly static over the last few years, and company size and industry are two of the most important benchmarking criteria—not necessarily strategic choices, but easy to evaluate and explain. Perhaps the combination of status quo and homogenous plan design, coupled with the increasing attention on board pay, means we have arrived at a natural time for disruption.

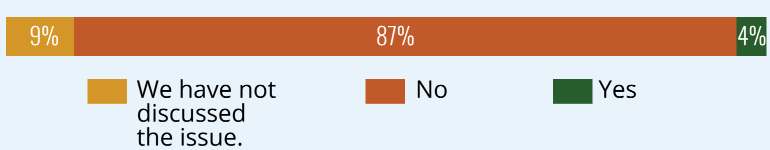
Certainly that concept is uncomfortable. Yet, there is some sense that the overflow of issues may reach a tipping point, and there is a concern that if boards don't take the initiative for significant change, something or someone else will, whether it's regulators, institutional shareholders, or activists. The complacency of the past has likely come to a close, and boards will have to think creatively to strike the right balance with self-imposed change that is tolerable, achievable, and effective.

Finally, communication is always a key component of any well-executed strategy. Many boards are doing a fairly good job at disclosing the numbers regarding director compensation. But they aren't building it out to the next logical conclusion, which is disclosing and discussing their corresponding director-pay philosophy. This is a universally actionable step to take, no matter a company's ownership structure or its position on the continuum of change, and one that can get your board thinking now about how it uses compensation as a catalyst.

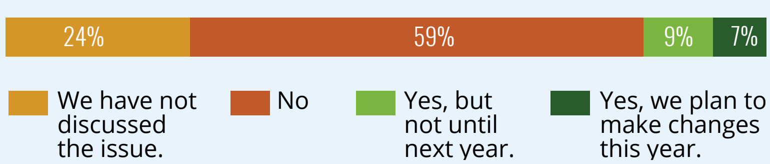
A STATUS QUO APPROACH TO DIRECTOR PAY?

Data from our recent survey shows there is little to no concern about the increasing external scrutiny of director pay, begging the question whether this might reflect wishful thinking. Further, we find that few are planning any changes to their disclosure on director pay and/or philosophy. This may be a missed opportunity to strategically update director-pay programs to reflect the changing nature of board service and provide in-depth communication on reasons and rationale.

In light of the proxy advisors signaling that they'll be scrutinizing nonemployee director pay, are there concerns on your board about the existing plan?



Does your organization plan to change the proxy narrative around its director-compensation philosophy and/or practices?



COMMUNICATING A BOARD'S WORTH

Director elections are facing the strongest opposition seen in almost a decade. In addition to Institutional Shareholder Services' formal director-pay assessments, we can expect board-compensation levels to be placed under a microscope during proxy season.

With this as the new reality, disclosures will need to do a better job at connecting the dots between the traditional SEC-tabular disclosures typically found in the "Director Compensation" sections of the proxy statement and the directors' qualifications, responsibilities, and experience (on top of robust narratives around board responsiveness and diversity) in the "Corporate Governance" sections of the proxy statement. Companies need to explain the principles and objectives of their director-compensation programs, as well as how they align with shareholder interests. Content based on compliance and numbers alone does not tell the whole story.

This challenge is not very different from where we were almost a decade ago with executive-compensation disclosures. Today, we know having a CD&A that strikes the right balance between marketing your executive-compensation program and satisfying SEC reporting rules is critical. If your CD&A doesn't provide a strong and clear rationale for the design of your program and the compensation committee's decisions, your document is behind the curve. Worse, if its only focused on the compliance and the numbers, you leave your story open to misinterpretation and potentially low shareholder support. Most companies have decided that's a risk they are no longer willing to take.

Other, similar risks are bleeding over from executive pay to director pay. True board expertise is not easy to find—the pool for director talent is exceptionally limited and the role of a board member is not getting any easier. Stakeholders need to be reassured that, like executive pay, board members who are responsible for setting NED pay are doing so in the best interests of shareholders and the company, and in a way that will continue to attract and retain the best people for the job. These narratives need to demonstrate that decisions about director compensation are being made using a holistic framework to ensure that board members are being paid competitively, appropriately, and responsibly based on the unique and high value they bring into the boardroom.

Building out the narrative that supports the director-pay tables should not be a painstaking exercise. It should be as simple as following core guidelines we've already been using in our CD&As:

1. Outline the philosophy, guiding principles, and objectives that drive the program design.
2. Provide an overview of the pay-mix structure and explain why it aligns with shareholder interests.
3. Summarize the compensation governance features of the program (e.g., "what we do/what we don't do").
4. Explain how decisions are made.

Articulating these messages beyond the proxy to investors and other stakeholders will also become important as the future of boards becomes more complex and the dialogue about compensation continues to gain momentum. It is time to take the lessons we've learned about how to effectively communicate executive compensation and apply them to director pay.

CASE STUDY

Foot Locker's Approach to Strategically Diversifying the Board

DIVERSITY: WOVEN INTO THE CORE OF THEIR DNA

Many may not be aware of the fact, but the Foot Locker brand grew out of the long gone but iconic American five-and-dime retailer, Woolworth's. The department store closed its last US location under the Woolworth name in 1997, and refocused its strategy to provide athletic footwear and apparel brands targeting active consumers. In 2001, Woolworth officially changed its name to Foot Locker.

But it was during the company's beginnings as Woolworth's that Foot Locker's dedication to diversity and inclusion emerged. Sit-ins at Woolworth's Nashville lunch counter, among other sit-ins in the 1960s at other department stores in various locations, led to their desegregation, to the advancement of civil rights across the nation, and eventually to diversity within Foot Locker's own boardroom. The first female director was appointed to the company's board in 1977 and the first African American director representation dates back to 1981.

AN ONGOING PROCESS

Sheilagh Clarke has served as general counsel of Foot Locker since 2014, and has been with the company for more than 30 years. She has witnessed the transformation of Woolworth's five-and-dime model to the thriving, diverse, and inclusive Foot Locker model that exists today. Clarke explains that diversity and inclusion are not new concepts or simply "check-the-box" exercises for the Foot Locker board: "Rather, diversity and inclusion are fundamental principles grounded in the belief that a diverse board in the broadest sense (gender, race, ethnicity, viewpoints, age, and experiences) is in the best interest of our company, our shareholders, and other stakeholders."

Dona Young, Foot Locker's lead independent director since 2016, continues to shape a board that is diverse, inclusive, and, by design, fit to oversee the company's strategy. As she puts it, "Diversity is a process. It's not a 'one and done' . . . it's about creating that environment that allows people to feel free to really speak their mind but also [be] willing to engage in listening, and [to] understand that at the end of the day, what's important is that we come to the best outcomes, and we come to them together."

Today, Foot Locker's 10-member board consists of			
4 Women Directors	1 African American Director	1 Hispanic Director	54–71 Age Range
Diverse backgrounds and experiences that include retail, brand marketing, consumer products, financial, legal, digital, technology, risk, management consulting, strategic planning, insurance, government, and academia.			

LONG-TERM SUCCESSION PLANNING

As part of the ongoing process, the Foot Locker board engages in disciplined, long-term succession planning. They meet regularly and look at a roll forward of their directors, their competencies, and their anticipated time frame for retirement.

The process is led by the nominating and corporate governance committee, chaired by Steve Oakland, and starts with the board strategy and how it is evolving and changing. The committee considers what is needed in terms of skill sets or areas of expertise, and how those areas of expertise may be changing, and then also consider the board's needs in terms of diversity of thought, experience, and perspective. As Young explains it, "We are taking that waterfall process of succession looking forward and superimposing it against . . . our role of looking forward at strategy."

Young stresses the importance of seeking independent thinkers who believe in collective outcomes, who can "both listen to and learn from each other and also be frank and open with each other, which we believe informs better outcomes."

DIVERSITY DOES NOT END WITH THE BOARD

The board's commitment to diversity is further reinforced by their Code of Business Conduct, published in 2018, that defines community and diversity as one of their seven core values. The Code of Conduct notes that at Foot Locker, they "embrace diversity and are expected to treat everyone with dignity, respect, trust, and fairness. . . . We are committed to maintaining an inclusive work environment where all associates demonstrate leadership by making others feel welcome and free to be themselves. Valuing our differences and recognizing how those differences allow us to make meaningful contributions to the team drives our elite performance."

Foot Locker's board also closely monitors the company's culture with regular benchmarks and reviews. In advance of each board meeting they receive a dashboard that includes diversity metrics such as engagement scores, turnover, and diversity by level of the organization, stores versus home office. As the board reviews these metrics, they look for changes over time and if there are certain areas that need to be explored.

CONTINUING THE JOURNEY

To remain sustainable in the highly competitive, global retail environment, Foot Locker understands that it needs to meet people where they are—including employees, customers, and any number of other stakeholders. The company's leadership has been intentional in the alignment of its purpose, mission, and operations with an understanding of the importance of their employees and their target customer.

The board has a singular advantage over those in other industries when it comes to the oversight of talent management: the ability to walk into any one of the company's stores across the United States and in 27 countries in Canada, Europe, Asia, and the Middle East. "As directors, we all walk into stores as a customer," Young said. "It is just amazing what being in those stores can tell us about how our oversight work and management's leadership is trickling down—from the board of directors to the associates in a Foot Locker store in Philadelphia, for instance. You ask a couple of questions: How long have you worked here? What are you doing? What do you like best about working here? It is so energizing to have that contact, and it is a way for us to have a firsthand view of culture."

Assessing the company's culture at the store and employee level is part of what allows the company to grow and change in the competitive, challenging retail market. It should come as no surprise, given the continued evolution of this iconic brand, that Young never feels like her work in partnership with the rest of the board is ever done. "Do I feel good about where we are? Yes," Young said. "Do I think our work is done? Absolutely not. We have to continuously work on these issues and never become complacent. We have to continuously find ways to improve our outcomes, our results, our performance on every dimension. That's just core to our DNA."

Future Proofing Director Skill Sets

The Future of Board Recruitment

Heidrick & Struggles

HOW TO USE THIS TOOL: As directors focus on the future strategic direction of the company, it's critical to ensure board members have the right skills for the future. Lead directors and others can use this tool to help future proof board skills.

ARE YOU 'FUTURE PROOFING' YOUR BOARD?

Boards have focused a great deal on strategy development in recent years. Working closely with their CEOs at regular board meetings and at off-site strategy retreats, boards have been charged with overseeing company direction as well as the opportunities and risks pertaining to investments in the markets, facilities, technologies, and people that can make that strategic vision a reality, fueling future growth and rewarding shareholders.

Less effort, however, has been expended on assessing the composition of boards to determine how well equipped current directors are to help companies navigate, today and tomorrow, a challenging global business environment characterized by rapid and continuous economic and political transformation.

In sum, boards represent a key competitive advantage for their companies, but there's a catch: only if they comprise directors with suitable skills, so that they are able to evolve and adapt as the world around them continues to undergo disruptive change.

CHANGING TIMES REQUIRE CHANGING BOARDS

Once upon a time, boards were akin to a highly selective men's club that often served as a rubber stamp for the CEO. Those days are long gone. Boards are now expected to take an active role as a partner to the CEO. Moreover, directors are now selected and valued as advisors in key areas related to the strategy.

Think of a board today as somewhat like a professional sports team. There are certain fundamental skills and personal attributes that all directors will possess. But boards now also require specialists to cover certain bases, including compensation, talent management, regulatory change, cyber risk, and a host of other skills determined by the needs of the individual company and its strategy. Thus, board members must bring particular talents to the table and also contribute to working together as a cohesive whole.

While the trend toward recruiting directors with diverse backgrounds and skills may have been ignited by external pressure from shareholders and the media, given the speed and complexity of change now—and the growing need for directors who are specialists in addition to possessing traditional operating experience—it is not surprising that nominating committees have shifted away from building boards that primarily comprise directors from the same background (that is, chiefly CEOs); gender (chiefly men); ethnicity (chiefly white); and age (chiefly older, at or toward the end of their careers). Yet boards with broader diversity in their ranks are clearly correlated with greater board effectiveness and company profitability, as study after study shows.[1]

A major roadblock to creating diverse, future-oriented boards is age discrimination. There is a commonly held belief that people can't add value to board discussions unless they have had a long, successful career, but directors with the most in-demand skills—in areas such as cybersecurity, online retailing, and social media—skew relatively young. In addition, diverse candidates in terms of gender or race and ethnicity may not be far enough along in

[1] As examples, please see Marcus Noland, Tyler Moran, and Barbara Kotschwar, "Is Gender Diversity Profitable? Evidence from a Global Survey," in the Peterson Institute for International Economics' *Working Paper Series* (February 2016), and "Why Diversity and Inclusion Matter: Quick Take," on Catalyst's "Research" web page, posted August 1, 2018.

their careers to have a CEO or C-suite credential, and without one they are perceived as lacking sufficient gravitas. Adding to the challenge, younger candidates are focused on building their careers, and many are prohibited by employers from serving on outside boards, so there's the double whammy of conflicts and time management. But figuring out how to fold younger candidates into the board mix is essential to future proofing boards.

A FUTURE-ORIENTED DIRECTOR RECRUITMENT PROCESS

To build a board oriented toward the future, there is a growing need for a more systematic, thoughtfully planned and executed board-building process that casts a wider net to enable the board to consider a range of board candidates. It has become clear through our work that a deliberative approach is the best way to ensure the relevant demographic and experiential diversity a board needs: gender, age, ethnicity, industry, geography, and others. And, done right, it provides access to desirable candidates with needed skills and experience who may not yet be highly visible in their careers, or, consequently, on the board's radar.

This director-recruitment process operates on a couple of different levels. First, it helps boards to fill immediate needs for director talent. In addition, when the process is institutionalized and a regular item on the meeting agenda, boards can plan for a variety of contingencies, whether director vacancies are planned or unplanned; can modify their director profile to keep pace with change; and can ensure that they have a robust pipeline of potential directors at all times.

DIRECTION CHECK—QUESTIONS FOR BOARD DISCUSSION

To be successful, any future-oriented board recruitment process must cover a few crucial bases. The board itself must also operate in an open, collaborative, and mutually accountable way to ensure that the recruitment process will meet the company's real needs and that directors see board service as a valuable use of their time.

Following, we suggest questions to spark productive board discussion on this topic with the goal of building a board, and an ongoing process, that is fit for the future:

Strategy

- Are we building a board geared to future challenges?
- Are directors steeped in and aligned on the company strategy? Not just generally, but in terms of ranking highest priorities and strategic imperatives?
- Have we identified the key challenges and new skills we will need as a board to support and oversee management in executing this strategy?
    - External: e.g., cyber risk, geopolitical, shareholder activism
    - Internal: e.g., executive compensation, needed culture change

Board succession

- Do we have a thorough understanding of the key skills directors will need, and have we translated that into the nominating committee's director-recruitment priorities?
- If we are anticipating adding one or more new directors in the next couple of years, have we vetted our recruitment profile to ensure criteria are relevant and not unnecessarily restricting access to appropriate

candidates (e.g., requiring CEO or prior board experience)?

- Are we maintaining a proper balance of director seniority and institutional knowledge vs. specialized skills and experience? Have we addressed term limits and retirement age in this context?

Process

- As a board, do we engage in frank discussions of strategic alternatives and attendant risks?
- Are we committed to accountability for corporate performance, for the board and for the executive team?
- Do we have in place a rigorous director assessment process geared to elevating the performance of current directors and the board as a whole? Is it linked to a systematic director recruitment process?
- Are we open to needed change on the board, and do we welcome newer directors with the skills and experience we need going forward? Do we promote a board culture of inclusiveness?

THE PAYOFF

It is clear that boards can represent a key competitive advantage at a time when so many of the external market and political challenges that companies must grapple with are well beyond their control. But this advantage remains unexploited unless boards actively prepare, guided by board and committee leadership, to maintain the most relevant, qualified director talent. Since that process is firmly rooted in the strategy, a board's needs will vary widely by company, and will also be affected by company culture, stage of growth, industry, and other factors, making it highly individualized.

Successful board building is, therefore, an "evergreen" process that requires regular care and feeding to maintain board effectiveness, but the result—a board that is a crucial strategic asset in an increasingly competitive global business environment—is well worth the effort.

CASE STUDY

Building a Board for the Future

CONTEXT/STRATEGIC OVERVIEW

A bank undergoing significant strategic and competitive challenges wished to improve the performance of its board, and retained Heidrick & Struggles (H&S) to undertake an assessment of its current board as a whole as well as assessments of individual directors. The CEO was concerned about the board's ability to add strategic value to the business; its ability to work as a cohesive team, in the boardroom and with the executive team; and its composition, including needed skills and experience.

PHASE 1 – ASSESSMENT PROCESS

Our assessment process focused on the board's collective and individual skills, experience, and ability to contend with the current and future challenges of the business. The assessment was based on a multipronged approach that gathered and then integrated data from several sources: existing records and questionnaires completed by individual directors, one-on-one interviews with H&S consultants that focused on their role as board members, and peer reviews of other directors on the board team.

PHASE 2 – PRESENTATION OF ASSESSMENT FINDINGS

Shared beforehand with board leadership, H&S board-assessment findings were presented in an open forum with the entire board to promote constructive dialogue.

Key issues uncovered in the board assessment included lack of clarity regarding both the board's roles and the boundaries between governance oversight and management responsibilities. Lack of board leadership had led to the formation of separate factions on the board, which created ongoing conflict and impeded the ability of the board to work as a team toward common goals.

One of the chief vulnerabilities the assessment revealed was that this was not a skills-based board. Rather than recruiting directors based on a skill set, experience, and knowledge base relevant to supporting the company's strategy, directors were selected based on ties with particular shareholder groups. Exacerbating this weakness was the fact that most directors lacked executive/operating experience, relevant industry experience, or experience linked to strategic objectives. We drew a sharp distinction between the competencies required to be a successful executive versus those required to be a successful director of this institution. The majority of those on the board were first-time directors and unable to translate their executive experience into a broader context to benefit the entire organization. The net effect was a highly inexperienced, ineffective board.

Recommendations included strengthening and refreshing board leadership, starting with the board chair, and strengthening the nominating committee with a state-of-the-art charter to ensure better director performance as well as to establish criteria and a process to identify the best-qualified board candidates in the future.

PHASE 3 – ADDRESSING ASSESSMENT RECOMMENDATIONS

As a result of H&S's board-assessment recommendations, the bank recruited a highly experienced board chair capable of managing the board discussion and decision-making process and aligning the board on strategy and common goals. The board is now planning on appointing independent directors, with no connection to shareholders or to the business, who possess the skills and relevant expertise required to provide unbiased input into board discussion and decision making. The board also recognizes that its prior lack of director training is a serious impediment to board effectiveness and is providing onboarding and training for new directors.

A greater emphasis on a professional and ongoing board-succession process will help to identify relevant, qualified directors and a time frame for recruiting them, so that the board is never again lacking the specific skills and experience it requires.

Board Effectiveness Checklist

NACD

HOW TO USE THIS TOOL: Performing a routine hygiene check of your board's current dynamics helps to maintain an effective board. Lead directors can distribute this checklist to the full board to individually fill out and then aggregate feedback to present in a full-board discussion about opportunities for improvement.

Questions: (check "Yes", "No", or if uncertain, "?")	**Yes**	**No**	**?**
The roles of the lead director and the chair have been clearly defined in a formalized document.			
There is a full-board evaluation to determine effectiveness.			
There is an annual review of the board-succession plan.			
Individual director-effectiveness evaluations happen prior to each director's next term.			
A director-evaluation action plan is created and revisited to ensure accountability.			
Annual performance goals are set and reviewed at least once a year.			
There is an annual review of the board's strategic plan and goals for the year.			
The lead director has created an environment where directors ask tough, challenging questions of management.			
Each director's voice carries equal weight in discussion.			
Board materials are focused to the relevant topic and avoid data dumping.			
Corporate officers other than the CEO present to the board.			
Independent directors conduct an executive session after every board meeting.			

Questions: (check "Yes", "No", or if uncertain, "?")	Yes	No	?
The lead director provides feedback to the CEO immediately following each executive session.			
The board and management have agreed on ground rules for their interactions.			
All directors are trained on the company's new products and markets on an annual basis.			
The board has sufficient operational expertise to understand the business.			
The board meets on an informal, social basis to promote group cohesiveness.			
The board has a sufficiently diverse composition to provide real discussion on issues.			
Directors clearly understand their governance roles and avoid micromanagement.			
The chair actively discourages side discussions or private conversations during meetings.			
The board sets limits on the number of outside directorships on which the CEO and officers can serve.			
The full board participates in continuous-learning programs to stay abreast of new technologies and trends.			
The board conducts an annual governance review to assess the effectiveness of their current model (e.g., creation of a specialized committee).			

NEXT STEPS

After completing this checklist, consider what issues or practices stand out as hindering the optimum performance of your board and your own optimum performance in your role with the company.

Of the items you rated as "No" or "?," which are the five most urgent or pressing in your view? Circle the top six above and be prepared to share them with the full board during an open group discussion that aims to identify the top items on which to focus the future work of the board and the organization.

CASE STUDY

BMO's Approach to Continuous Education for Directors

HOW TO USE THIS TOOL: Directors and corporate secretaries can use this tool both as an example of robust shareholder communications and as a template for thinking about director education for their own board.

BMO 2019 Proxy Statement, p. 20.

"To assist directors in understanding their responsibilities and updating their knowledge of issues affecting our businesses, we provide directors with an ongoing education program. The Bank's Governance and Nominating Committee is responsible for (i) overseeing the orientation program for new directors and committee members with respect to their Board responsibilities, the role of the board and its committees and the contribution individual directors are expected to make, and (ii) overseeing the programs for providing continuing education for all directors and committee members.

"On an ongoing basis, the Bank provides many opportunities for directors to read and hear about specialized and complex topics relevant to the Bank's operations, and to make site visits. In particular, directors:

- receive timely access to comprehensive materials and relevant information prior to each Board and committee meeting;
- receive regular deep dive presentations on relevant topics, including technology and technological innovation; and
- have full access to our senior management and employees and participate in our Executives Meet"

DIRECTORS PROGRAM

"During the 2018 fiscal year, directors participated in educational sessions and roundtable sessions and received educational materials on the topics outlined below. They also received quarterly and ad hoc briefings on regulatory developments."

PARTIAL Q1 DIRECTOR EDUCATION CALENDAR

The full calendar can be found starting on page 20 of the 2019 proxy statement.

Quarter	Topic	Audience (Board/ Committee)	Babiak	Brochu	Cope	Edwards*	Eichenbaum	Farmer	Huber	LaFlèche	Mitchelmore	Orsino	Prichard*	Wilson III
Q1 2018	BMO Data and Analytics Update	Board	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Reading: The Crow's Nest: BMO Capital Markets Future of Banking Survey – 2017 Results (source: Sohrad Movahedi – November 20, 2017)	Board	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Reading: Bank of Montreal: Commercial banking emphasis is credit positive with consumer credit threatened by high household debt (source: Moody's Investors Service and company reports, November 13, 2017)	Board	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Reading: The day after NAFTA – Economic Impact Analysis (source: Douglas Porter, November 2017)	Board	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Bringing our Board to life through Digital: How technology supports great customer experience	Joint BMO / BFC Board	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Trends in the Financial Services Industry and the Evolving Role of External Auditors	Audit & Conduct Review	✓	✓		✓	✓		✓			✓	✓	

* attended as a guest of the Audit and Conduct Review Committee

Used and adapted with permission.

Cultivating the Long-Term Habits of a Highly Effective Board

A Checklist for Self-Assessment

FCLTGlobal

A well-functioning corporate board of directors wields the power to meaningfully influence the purpose, culture, and direction of an organization.

HOW TO USE THIS TOOL: Directors looking to identify potential gaps in their current habits can use this checklist to identify missing steps in maximizing long-term potential.

A CHECKLIST FOR BOARD MEMBERS

IS MY BOARD … Spending enough time on strategy?

- ☐ Prioritizing strategic concerns in meeting agendas and materials
- ☐ Letting committees do the heavy lifting
- ☐ Making prereading materials mandatory to preserve meeting time for discussion and decision making
- ☐ Documenting board-level decisions to avoid duplicative debate
- ☐ Leveraging time outside of meetings to advance the company's mission
- ☐ Using FCLTGlobal's Time Visualization Tool to evaluate and improve time management

IS MY BOARD … Aligning director interests with those of the company?

- ☐ Encouraging directors to accumulate stock in the open market directly, mirroring the experience of long-term shareholders
- ☐ Locking up stock so it can't be sold until well after directors' tenures end to inspire a long-term ownership mentality

IS MY BOARD … Communicating with shareholders?

- ☐ Foregrounding long-term language in governance documents (e.g., "The Board's primary purpose is to build long-term shareowner value.")
- ☐ Dedicating time for investor feedback
- ☐ Speaking on behalf of the entire board
- ☐ Having open conversations, with ample time for both talking and listening
- ☐ Leveraging the corporate secretary's expertise

IS MY BOARD … Ensuring a diversity of views?

- ☐ Recruiting directors with a variety of backgrounds, including younger directors and women

A CHECKLIST FOR INVESTORS

ARE THE COMPANIES IN MY PORTFOLIO OVERSEEN BY BOARDS THAT …

- ☐ Prioritize strategy work?
- ☐ Encourage direct purchase of stock and long-term sale restrictions (lock-ups)?
- ☐ Request investors' views on company strategy and long-term vision?
- ☐ Encourage diversity—age, gender, and other dimensions?

Source: FCLTGlobal, *Is My Board Cultivating the Long-term Habits of a Highly Effective Corporate Board? A Checklist for Self-Assessment*. Used with permission.

Agenda Setting for the Full Board

Calendar Best Practices

Sidley Austin LLP

HOW TO USE THIS TOOL: This calendar shows potential ways that the leader of a board of directors of a US public company may wish to organize the board's activities during a calendar year. A more comprehensive version of this calendar, which includes proposed activities for each board committee throughout the year, is available on www.sidley.com.[1]

Sidley Austin LLP provides this information for educational purposes only. It should not be construed or relied upon as legal advice. Given the complexities of law, regulation and practice in this area and the variety of company-specific factors that need to be considered, this information should not be applied to any particular situation without the advice of an attorney experienced in this area of law.

INTRODUCTORY NOTE

This calendar represents one version of how the board of a US-domiciled corporation listed on the New York Stock Exchange (NYSE) or Nasdaq with a December 31 fiscal year end may wish to organize its activities during a calendar year. Although this calendar is designed to address both specific requirements and general governance principles applicable to most corporations, it must be tailored to each individual corporation's circumstances and should reflect the substantive and procedural requirements of its charter/bylaws, board committee charters, and/or corporate governance guidelines. For example, a corporation having a controlling shareholder is exempted from certain of the NYSE and Nasdaq requirements, but should have procedures in place for addressing conflicts of interest. Alternatively, a corporation addressing issues that are out of the ordinary course of business (e.g., a possible change-in-control transaction, an unplanned CEO succession, or liquidity concerns) will be scheduling more frequent meetings of the board and/or its committees. Finally, a corporation having relatively simple businesses and facing no special issues may be able to adopt a more streamlined approach.

Although this calendar was designed for a public company subject to US Securities and Exchange Commission (SEC) and stock exchange requirements, a private company may adopt a similar, albeit simplified, calendar for its board activities as a matter of best practice.

In preparing this calendar, consideration has been given to an appropriate sequencing of events. For example, the strategic review is set for September, two months in advance of the November budget presentations. As another example, a discussion of disclosure philosophy in October is designed to set the stage for year-end reporting.

This calendar was prepared based upon requirements in effect as of July 2019. Changes in requirements or new requirements may necessitate modifications to timing or other modifications.

[1] Sidley, "The Sidley Best Practices Calendar for Corporate Boards and Committees," on www.sidley.com.

REGULARLY SCHEDULED MEETINGS

	Full Board	Audit Committee	Compensation Committee	NOMINATING AND CORPORATE GOVERNANCE COMMITTEE
January (two days)	X	X	X	X
February	X	X	X	
March				
April		X (telephonic)		
May	X			
June				
July	X	X	X	X
August				
September (retreat)	X			X
October		X (telephonic)		
November	X		X	
December				
TOTAL	6	5	4	3

Agenda items for the full board follow. Citations appearing in parentheses on the following pages are to sources of specific requirements. ("Dodd-Frank" refers to the Dodd-Frank Wall Street Reform and Consumer Protection Act; "SOX" refers to the Sarbanes-Oxley Act; "S-K" refers to SEC Regulation S-K; "S-X" refers to SEC Regulation S-X; "NYSE" refers to the New York Stock Exchange; NYSE rule references are to the rules contained in the New York Stock Exchange Listed Company Manual; "Nasdaq" refers to the Nasdaq Stock Market; and Nasdaq rule references are to the rules contained in the Nasdaq listing standards.)

This calendar provides that the annual meeting of shareholders will be held in May. Although only the January and September meetings are indicated as multiday affairs, in some instances the committee meetings should take place the afternoon before the meeting of the full board. As indicated above, there are no regularly scheduled meetings in March, June, August, or December. Written materials should be supplied reasonably in advance of the meetings. Because of the legal significance that may be ascribed to any information supplied to a board or committee, consideration should be given to a prior review of those materials by counsel. Audit Committee meetings should be scheduled sufficiently in advance of scheduled earnings releases so as not to preempt the committee from giving meaningful input. The chair or lead independent director (if any) may communicate with board members between the regularly scheduled meetings to identify agenda items and engage on other matters (e.g., the performance and functioning of the board or individual directors) as appropriate.

See page 69 for a list of possible additional items to include on the agendas of regular or special meetings of the board.

JANUARY (TWO DAYS)

- Review and approve minutes of prior meeting
- Standard reports—at each meeting (if not monthly), these reports will include operating results, business unit presentations, financial condition, key drivers, contingencies, and investor relations
- Approve nomination of directors for election/reelection at the annual meeting based on recommendation of the Nominating and Corporate Governance Committee
- Receive reports of the Audit, Compensation, and Nominating and Corporate Governance Committees and act upon any recommendations relating to these topics:
    - Board leadership structure
    - D&O insurance, indemnification, and related matters
- Review the completed D&O questionnaires relating to director independence (Exchange Act Rule 10A-3; SOX § 301, NYSE § 303A.01 and § 303A.02; Nasdaq § 5605(b)(1) and (c)(2)), qualifications and independence of Audit Committee members (SOX § 407; S-K Item 401(e); NYSE § 303A.06 and § 303A.07; Nasdaq § 5605(c)(2)) and independence of Compensation Committee members (Dodd-Frank § 952; Exchange Act Rule 10C-1; NYSE § 303A.02(a)(ii) and § 303A.05(a); Nasdaq § 5605(d)(2)); make determinations as to the independence of directors (including for purposes of Audit and Compensation Committee service) and qualifications and financial expertise of Audit Committee members
- Review completed D&O conflict of interest questionnaires
- Review the corporate communications strategy, including plans for shareholder engagement throughout the year
- Review the board's role in risk management
- Executive session (NYSE § 303A.03; Nasdaq § 5605(b)(2))

FEBRUARY

- Review and approve minutes of prior meeting
- Standard reports
- Receive reports of Audit Committee and Compensation Committee
- Adopt resolutions relating to annual shareholders' meeting, including setting record date and meeting date and making recommendations with regard to ballot items
- Review Form 10-K, draft proxy statement and procedures supporting CEO/CFO certifications regarding Exchange Act reports and internal control over financial reporting (SOX §§ 302, 404, 906) and CEO certification of compliance with NYSE listing standards (NYSE § 303A.12)
- Review information reporting systems and disclosure controls and procedures (Exchange Act Rule 13a-14), including possible report on the operations of any Disclosure Committee (See *Caremark* (1996) holding that directors will not be subject to oversight liability so long as adequate reporting and control systems are in place and the directors do not consciously fail to monitor and oversee such systems, and *Marchand* (2019) reaffirming the need for board-level reporting systems related to the company's "mission critical" compliance risks)
- Review takeover environment and defenses, as well as all contracts (employment and other) containing change-in-control triggers
- Executive session, including review of CEO and CFO evaluations (NYSE § 303A.03; Nasdaq § 5605(b)(2))

MAY

- Review and approve minutes of prior meeting
- Standard reports
- Elect officers
- Review board committee composition and appoint directors as members and chairs of board committees, as necessary, with input from the Nominating and Corporate Governance Committee; consider whether any delegated responsibilities should be transferred from one board committee to another or whether any additional board committee(s) should be formed
- Executive session (NYSE § 303A.03; Nasdaq § 5605(b)(2))
- Independent directors to elect a lead independent director, if necessary
- Orientation session for new directors (NYSE § 303A.09)

JULY

- Review and approve minutes of prior meeting
- Standard reports
- Midyear reassessment of projections
- Receive reports of the Audit, Compensation, and Nominating and Corporate Governance Committees and act upon any recommendations relating to these topics:
    - Succession planning
    - Code of Business Conduct and Ethics (NYSE § 303A.10; Nasdaq § 5610)
    - Code of Ethics for senior financial officers (SOX § 406 and S-K Item 406)
    - Insider trading policy and other compliance program policies and procedures
    - Clawback policy
    - Hedging policy
    - Stock ownership guidelines
    - Charter/bylaws
    - Committee charters
    - Standing resolutions on delegation of authority and information flow
    - Corporate governance guidelines (NYSE § 303A.09)
    - Related person transaction policy (S-K Item 404(b))
    - Board and committee self-evaluations
    - Form and amount of board and committee compensation
- Planning for September retreat
- Executive session (NYSE § 303A.03; Nasdaq § 5605(b)(2))

SEPTEMBER (RETREAT)

- Review and approve minutes of prior meeting
- Standard reports
- Comprehensive reviews: corporate strategy; management structure, talent development, and succession; competitive analysis; corporate culture; and board purpose and objectives
- Receive Audit Committee report on risk-management review
- Receive report from management regarding major categories of risk exposure for the company and steps taken to manage such risks
- Receive Nominating and Corporate Governance Committee report and act upon any recommendations relating to these topics:
    - Director independence standards
    - Criteria and qualifications for board membership
    - Board and committee calendar for coming year
- Continuing education session; review plans for continuing education for directors (NYSE § 303A.09)
- Executive session (NYSE § 303A.03; Nasdaq § 5605(b)(2))

NOVEMBER

- Review and approve minutes of prior meeting
- Standard reports
- Approve operating and capital budgets and financing program for coming year
- Receive report of the Audit Committee
- Receive report of the Compensation Committee and approve matters relating to compensation plans
- Executive session (NYSE § 303A.03; Nasdaq § 5605(b)(2))

POSSIBLE ADDITIONAL AGENDA ITEMS

(For Regular Meetings or Bases for Calling Special Meetings or Taking Action by Unanimous Written Consent)

- Receipt of indication of interest/takeover bid
- Unplanned succession of senior executive
- Recommendation from the Nominating and Corporate Governance Committee as to whether or not to accept a letter of resignation submitted by a director
- Review any transaction or other matter giving rise to an actual or apparent conflict of interest
- Notice of significant whistle-blower complaint or other compliance issue
- Receipt of shareholder demand for books and records
- Crisis impacting the stock price or business reputation
- Review of corporate social responsibility/sustainability efforts, particularly as they relate to strategy and risk
- Approval of use of swaps pursuant to the “end-user exception” from the Dodd-Frank-required Commodity Futures Trading Commission clearing mandate; adoption and/or annual review of policies regarding the use of swaps (exception not available to financial companies; authority may be delegated to an appropriate board committee such as the Audit Committee)

Expanding Committee Scope

Future Mandates for the Three Standing Committees

NACD

HOW TO USE THIS TOOL: The future of board leadership will impact not only lead directors but also committees. Directors should consider the potential future state of board committees, which calls for an updated mandate. Below are potential new focus areas for the three standing committees.

AUDIT COMMITTEE

- Increased focus on how the company manages data security, compliance, cyber risk, major IT investments, and other "defensive" IT risks
- A stronger grasp of how tech innovation and digital disruption are informing risk management and the internal control environment
- Increased focus on the tone at the top, incentives, and the culture of the organization, including the effectiveness of companies' ethics and compliance programs
- Deeper reviews of the company's most disruptive risks, and an increased focus on how these compare to those of industry peers or competitors
- Evaluating whether the finance function has the requisite talent and skills to maintain quality financial reporting

COMPENSATION COMMITTEE

- Increased focus on human-capital management, including the workforce of the future
- Demand to provide oversight of internal pay equity
- Increased scrutiny on CEO pay
- Expanded oversight of compensation incentives below the executive suite
- Larger focus on corporate culture and employee engagement
- Move toward increased use of nonfinancial and strategic metrics for compensation plans

NOMINATING AND GOVERNANCE COMMITTEE

- Increased focus on director and CEO succession planning
- Deeper director evaluations including 360-degree assessments of each individual director and skills audits
- Higher expectations of ESG oversight
- Increased focus on diversity, including gender, background, and operational expertise of both directors and the company's workforce
- Increased focus on board-refreshment mechanisms and public disclosure around the refreshment process
- Broadened scope of oversight to include privacy oversight

Reassessment of Ongoing Committee Charters

NACD

Board agendas continue to evolve and expand in response to emerging issues and fast-moving risk areas—from cybersecurity to heightened political and economic volatility across the globe. Increased attention to corporate culture and environmental and social matters is also adding to directors' workloads. To be successful in this changing business landscape, boards will have to consider whether their governance structures and processes are keeping pace. This tool is adapted from discussions among participants at recent meetings of the NACD Fortune 500 Committee Chair Advisory Councils. See *Addressing the Challenges of Expanding Board and Committee Agendas* and *Changing Committee Structures in Response to Evolving Board Needs* for more information and further discussion points.

> **HOW TO USE THIS TOOL:** Nominating and governance committees may turn to this tool for tactical guidance on how to address evolving oversight responsibilities, as well as their impact on committee structures and charters.

- **Use ad hoc committees as an exploratory tactic for the board to test the waters.** One meeting participant remarked, "On one board we were considering how to improve effectiveness at overseeing technology, innovation, and risk matters. As the audit committee chair, I set up an ad hoc committee with a sunset date. As the board came to rely on it, we made the decision to keep it as a standing committee."
- **Maintain the board's size by relying on advisory boards.** Advisory boards can be an effective way to bring outside expertise on complex and pressing topics into the boardroom without creating another committee or adding a subject-matter expert to the board.
- **Conduct regular, rigorous charter reviews.** Given the changing and expanding expectations for the board's performance and oversight, there is a need to instill rigor in annual charter reviews to ensure that they are not perfunctory, check-the-box exercises. Boards should devote adequate time and attention to considering whether existing committee structures are still appropriate. In addition to considering which committees should oversee which issues, charter reviews can be used to look for areas of overlap or for responsibilities that should be shared differently.
- **Leverage evaluations.** Directors can consider using board and committee evaluations to help gauge whether the focus and work of the board's key committees remain in line with their respective charters, given shifts in the operating environment.
- **Regularly assess whether director skill sets are aligned with the board's needs.** It's critical for boards to ensure that director skills are keeping pace with the board's current and future needs. A director shared that his company had "recently created a set of director principles, including relevance: how are we keeping our skills current, and what do we bring to the board? The nominating and governance committee looks at [these principles] each year."
- **Ensure that information continues to flow to the rest of the board as needed.** Cross-committee membership can facilitate information flow back to the full board when committees are discussing topics that are particularly pertinent to other committees or to the board as a whole. A variant on this approach is scheduling a meeting of committee chairs to share information on each committee's activities in areas of common responsibility, such as risk oversight, and then reporting this information back to the full board.

Using Proxy Disclosure to Increase Boardroom Transparency

NACD

Proxy disclosure has moved from bare bones to comprehensive disclosure, and it is now seen as an effective tool to communicate with a large swath of investors. The Compensation Discussion & Analysis has increased transparency into the executive-pay programs, and now companies are starting to provide a similar window into the boardroom.

> **HOW TO USE THIS TOOL:** When preparing your next proxy, consider using the examples below to help expand your communication with investors and disclose additional insight into board responsibilities, dynamics, and operations.

LEAD INDEPENDENT DIRECTOR'S RESPONSIBILITIES

Macy's DEF14a, 2019, p. 14. Macy's clearly communicates the role and responsibilities for their lead independent director by publishing key aspects of their policy in the proxy statement.

Accordingly, our Board adopted a Lead Independent Director Policy. Under this policy, the lead independent director has the following responsibilities:

Functions as Liaison with the Chairman and/or the CEO	Board Membership and Performance Evaluation
• Serves as liaison between the independent directors and the Chairman and/or the CEO (although all directors have direct and complete access to the Chairman and/or CEO at any time as they deem necessary or appropriate)	• Provides input, when appropriate, to the chair of the NCG Committee with respect to the annual Board and committee evaluation process
• Communicates Board member feedback to the Chairman and/or CEO	• Advises the NCG Committee and Chairman on the membership of the various Board committees and the selection of committee chairpersons
Meetings of Independent Directors	**Shareholder Communication**
• Has the authority to call meetings of the independent directors	• Is regularly apprised of inquiries from shareholders and involved in correspondence responding to these inquiries, when appropriate
• Approves the agenda for executive sessions of the independent directors	• If requested by shareholders or other stakeholders, ensures that he/she is available, when appropriate, for consultation and direct communication
Presides at Executive Sessions/Committee Meetings	**Approves Appropriate Provision of Information to the Board Such as Board Meeting Agendas and Schedules**
• Presides at all meetings of the Board at which the Chairman is not present, including executive sessions of the independent directors	• Consults with the Chairman on, and approves when appropriate, the information sent to the Board, including the quality, quantity and timeliness of such information, as well as approving meeting agendas
	• Facilitates the Board's approval of the number and frequency of meetings, and approves meeting schedules to ensure there is adequate time for discussion of all agenda items

Regions Financial Corporation, DEF14a, 2019, p. 56 (chair of the board's key responsibilities) and p. 46 (personal attributes).

Region's not only discusses the key responsibilities of the chair but also discusses attributes they look for in each of their board members.

Chair of the Board's Key Responsibilities

- Establishes the agenda and presides at executive sessions of the Board's non-management and independent Directors
- Approves information sent to and meeting agendas for the Board
- Presides at meetings of shareholders
- Presides at Board meetings
- Calls special meetings of the Board
- Acts as a liaison and facilitates communication among Directors
- Engages with our institutional shareholders
- Provides leadership to the Board in a time of emergency or crisis
- Acts as a sounding board and advisor to our CEO
- In addition to ongoing discussions throughout the year, conducts formal one-on-one discussions as part of the annual Director self-evaluation process

Additionally, the following are some of the personal attributes that each nominee is expected to possess:

Commitment	The ability to commit the time necessary to function as an effective Director by attending on-site meetings in person.
Constructive Questioner	The preparedness to ask questions and challenge management and peer Directors in a constructive and appropriate way.
Contributor and Team Player	The ability to work as a member of a team and demonstrate the passion and time to make a genuine and active contribution to the Board.
Critical and Innovative Thinker	The ability to critically analyze complex and detailed information, readily distill key issues, and develop innovative approaches and solutions to problems.
Effective Listener and Communicator	The ability to: • listen to and constructively and appropriately debate other people's viewpoints; • develop and deliver compelling arguments; and • communicate effectively with a broad range of stakeholders.
Ethics and Integrity	A commitment to: • understanding and fulfilling the duties and responsibilities of a Director and maintaining knowledge in this regard through professional development; • putting Regions' interests before any personal interests; • being transparent; and • maintaining Board confidentiality.
Financially Literate	The ability to read and understand fundamental financial statements and make appropriate decisions.
Influencer and Negotiator	The ability to negotiate outcomes and influence others to agree with those outcomes, including an ability to gain stakeholder support for the Board's decisions.
Leader	The ability to: • appropriately represent Regions; • set appropriate Board and organizational culture; and • make and take responsibility for decisions and actions.
Unbiased	The ability to represent all shareholders and not a particular interest group.

Investor Expectations of Board Leaders

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Outlined below are some of the views of the top US-based investors and pension funds on board composition, overboarding, board refreshment, and board leadership.

HOW TO USE THIS TOOL: Directors and corporate secretaries can use the information below as a helpful reference guide when seeking guidance on investor's perspectives of board leadership but should still seek active engagement with the company's top shareholders.

Board Composition	
BlackRock	"Boards with a diverse mix of genders, ethnicities, career experiences, age, and ways of thinking have, as a result, a more diverse and aware mindset. They are less likely to succumb to groupthink or miss new threats to a company's business model. And they are better able to identify opportunities that promote long-term growth."[1]
CalPERS	"Board attributes should include a range of skills and experience which provide a diverse and dynamic team to oversee business strategy, risk mitigation and senior management performance. The board should establish and disclose a diverse mix of director attributes, experiences, perspectives and skill sets that are most appropriate for the company. At a minimum, director attributes should include expertise in accounting or finance, international markets, business, human capital management, industry knowledge, governance, customer-base experience or perspective, crisis response, leadership, strategic planning, and competence managing multifaceted risk—including expertise and experience in climate change risk management strategies. Additionally, existing directors should receive continuing education surrounding a company's activities and operations to ensure they maintain the necessary skill sets and knowledge to meet their fiduciary responsibilities."[2]
CalSTRS	"The board should be composed of diverse individuals with the skills, education, experiences, expertise and personal qualities that are appropriate to the company's current and long-term business needs. This diversity is critical in order for the board to properly oversee management, business strategy and risk mitigation. The board should establish a format to disclose the various skills, experience and backgrounds of board members and how those attributes enhance the long-term strategy of the company. The skills and experience needed include, but are not limited to, financial and/or accounting, industry expertise, business management, governance, customer service, leadership, risk management, including climate risk management and cyber-risk management, and strategic planning."[3]

[1] BlackRock, "BlackRock Investment Stewardship's approach to engagement on board diversity," *Investment Stewardship Commentary*, January 2019, p. 1.
[2] CalPERS, *CalPERS' Governance & Sustainability Principles* (June 2018), p. 16.
[3] CalSTRS, *California State Teachers' Retirement System Corporate Governance Principles* (updated November 7, 2018), p. 5.

New York State Common Retirement Fund	"The Fund will support the appointment of qualified and diverse directors who are capable of fulfilling fiduciary responsibilities to shareholders. The Fund focuses on long-term performance and expects that each director possesses the requisite skills to appropriately oversee a company's overall strategy and operations. . . . [A] board should reflect a broad diversity of experience including leadership, finance, accounting, international business management, industry expertise, customer base experience, risk and crisis management. Also, the Fund believes that a company should seek director candidates reflecting diverse attributes based on age, race, gender, ethnicity, geography, sexual orientation and gender identity. Nominating committee charters should define diversity to encompass all of these factors, including sexual orientation and gender identity. By broadening the definition of boardroom diversity, portfolio companies will help to ensure that a board remains open to new ideas and remains inclusive and representative of all its employees and customer base."[4]
State Street Global Advisors	"At SSGA, we view gender diversity as one of many ways a board can introduce a varied set of skills and expertise among its directors to help improve financial performance. Gender diversity on boards has been a thematic engagement area for SSGA since 2015."[5]
T. Rowe Price	"Board diversity is an important issue for a growing number of investors, including T. Rowe Price. At a high level, the composition of the average company board does not reflect the diversity of the stakeholders these companies represent—their employees, customers, suppliers, communities, or investors. A substantial body of academic evidence supports our own observation as investors: that boards lacking in diversity represent a sub-optimal composition and a potential risk to the company's competiveness over time."[6]
Vanguard	"We believe good governance begins with a great board of directors. Our primary interest is to ensure that the individuals who represent the interests of all shareholders are independent, committed, capable, and appropriately experienced. "We also believe that diverse groups make better, more informed decisions and that, in turn, can lead to better results. That's why we want to see highly effective boards whose directors bring diverse perspectives to the table. We seek to understand, through disclosure, a board's mix of experience, professional expertise, tenure, and personal characteristics such as gender, race, age, and national origin and how that aligns with the company's strategy. "Boards must also continuously evaluate themselves and evolve to align with the long-term needs of the business."[7]

[4] New York State Common Retirement Fund, *Environmental, Social & Governance Principles and Proxy Voting Guidelines* (revised April 2018), p. 6.
[5] State Street Global Advisors, "State Street Global Advisors' Guidance on Enhancing Gender Diversity on Boards" (2019), p. 1.
[6] T. Rowe Price, "Proxy Voting Guidelines," p. 3.
[7] Glenn Booraem, Vanguard, "What we do. How we do it. Why it matters." (April 2019), p. 8.

Overboarding	
BlackRock	"We will consider voting against committee members and / or individual directors . . . where a director serves on an excess number of boards, which may limit his / her capacity to focus on each board's requirements. The following illustrates the maximum number of boards on which a director may serve, before he / she is considered to be over-committed: four public boards if not a public company CEO. If [a] public company CEO, two public boards."[8]
CalSTRS	"It is CalSTRS view that a director's responsibilities and duties are increasingly complex, demanding and time-consuming. . . . CalSTRS believes that CEOs should not serve on more than one other public board and directors should not serve on more than four public boards."[9]
State Street Global Advisors	"We may withhold votes from directors based on the following: . . . CEOs of a public company who sit on more than three public company boards; director nominees who sit on more than six public company boards."[10]
T. Rowe Price	"[Vote against] any director who sits on more than five public company boards, or any director who is CEO of a publicly traded company and serves on more than two additional public boards."[11]
Vanguard	"Directors' responsibilities are complex and time-consuming. Because of the demands of board and committee memberships, a director can be 'overboarded.' While no two boards are identical and time commitments may vary, we believe that the limitations below are appropriate absent compelling evidence to the contrary. "A fund will vote against any director who is a named executive officer (NEO) and sits on more than one outside public board. It will generally vote against the nominee at each company where he/she serves as a nonexecutive director. "A fund will also vote against any director who serves on five or more public company boards. It will vote against the director at each of these companies except, generally, one where he/she serves as chair of the board. "A fund might vote for an overboarded director if the director has publicly committed to stepping down from the other directorship(s) necessary to fall within the thresholds listed above."[12]

[8] BlackRock, *Proxy voting guidelines for U.S. securities* (January 2019), p. 3.
[9] CalSTRS, *California State Teachers' Retirement System Corporate Governance Principles* (updated November 7, 2018), p. 7.
[10] State Street Global Advisors, "2019 Proxy Voting and Engagement Guidelines: North America (United States & Canada)," posted on ssga.com on March 18, 2019.
[11] T. Rowe Price, "Proxy Voting Guidelines," p. 3.
[12] Vanguard Funds, *Proxy voting guidelines for U.S. portfolio companies* (April 2019), p. 4.

Board Refreshment	
BlackRock	"Where boards find that age limits or term limits are the most efficient and objective mechanism for ensuring periodic board refreshment, we generally defer to the board's determination in setting such limits. "To the extent that we believe that a company has not adequately accounted for diversity in its board composition within a reasonable timeframe, we may vote against the nominating / governance committee for an apparent lack of commitment to board effectiveness."[13]
CalPERS	"Boards should consider all relevant facts and circumstances to determine whether a director should be considered independent—these considerations include the director's years of service on the board—extended periods of service may adversely impact a director's ability to bring an objective perspective to the boardroom. We believe director independence can be compromised at 12 years of service—in these situations a company should carry out rigorous evaluations to either classify the director as non-independent or provide a detailed annual explanation of why the director can continue to be classified as independent."[14]
CalSTRS	"While tenure and age limits can force board turnover, they do not ensure a regular evaluation of the company's current and long-term business needs. Boards should establish and disclose the process used to evaluate board composition and director performance, including a periodic third-party evaluation. Along with board refreshment, the board should be transparent about its recruitment process and disclose a board succession plan that addresses future company and board needs."[15]
New York State Common Retirement Fund	"Arbitrary limits on director tenure will not necessarily ensure that a director will be more qualified to serve in shareholders' best interests. The Fund believes that boards should continually evaluate director tenure as part of its comprehensive review of the board and encourages boards to establish mechanisms that promote periodic refreshment of the board. The Fund will not support proposals that ask a company to provide for age limits for directors. The Fund also will not support proposals that request that a company provide for term limitations for directors. Although the Fund does not support director term limits, the Fund will scrutinize boards more closely in terms of independence and overall performance where the average tenure of all directors exceeds 15 years."[16]

[13] BlackRock, *Proxy voting guidelines for U.S. securities* (January 2019), p. 5.
[14] CalPERS, *CalPERS' Governance & Sustainability Principles* (June 2018), p. 16.
[15] CalSTRS, "Best Practices in Board Composition," Fact Sheet (May 2015), p. 1.
[16] New York State Common Retirement Fund, *Environmental, Social & Governance Principles and Proxy Voting Guidelines* (revised April 2018), p. 9.

State Street Global Advisors	"In assessing excessive tenure, we give consideration to factors such as the preponderance of long tenured directors, board refreshment practices, and classified board structures."[17]
Vanguard	"*Term limits for outside directors.* A fund will vote for management proposals to limit terms of outside directors and generally vote against shareholder proposals to limit such terms."[18]
Board Leadership	
BlackRock	"We believe that independent leadership is important in the boardroom. In the U.S. there are two commonly accepted structures for independent board leadership: 1) an independent chairman; or 2) a lead independent director when the roles of chairman and CEO are combined. "In the absence of a significant governance concern, we defer to boards to designate the most appropriate leadership structure to ensure adequate balance and independence. "In the event that the board chooses a combined chair / CEO model, we generally support the designation of a lead independent director if they have the power to: 1) provide formal input into board meeting agendas; 2) call meetings of the independent directors; and 3) preside at meetings of independent directors. Furthermore, while we anticipate that most directors will be elected annually, we believe an element of continuity is important for this role for an extended period of time to provide appropriate leadership balance to the chair / CEO."[19]
CalPERS	"The board should be chaired by an independent director. . . . The CEO and chair roles should only be combined in very limited circumstances; in these situations, the board should provide a written statement in the proxy materials discussing why the combined role is in the best interest of shareowners, and it should name a lead independent director. . . . "[20]
CalSTRS	"CalSTRS believes that independent leadership is best when companies have an independent chair that is separate from the Chief Executive Officer. The roles of chair and CEO have fundamentally different and often conflicting responsibilities: the chair serves as leader for the board to provide independent oversight of management and the CEO serves as leader of the company. It is vital that the leadership is structured to ensure there is adequate flow of information to the board, and that management does not control which issues are elevated to the board."[21]

[17] State Street Global Advisors, "2019 Proxy Voting and Engagement Guidelines: North America (United States & Canada)," posted on ssga.com on March 18, 2019.
[18] Vanguard Funds, *Proxy voting guidelines for U.S. portfolio companies* (April 2019), p. 16.
[19] BlackRock, *Proxy voting guidelines for U.S. securities* (January 2019), p. 6.
[20] CalPERS, *CalPERS' Governance & Sustainability Principles* (June 2018), p. 12.
[21] CalSTRS, "Best Practices in Board Composition," Fact Sheet (May 2015), p. 1.

New York State Common Retirement Fund	"The Fund will support proposals that request that a company take the steps necessary to adopt a policy that the board chairman be an 'independent' director. The Fund will also support proposals that request that a company take the steps necessary to separate the roles of chairman and chief executive officer. Alternatively, where there is one director acting as both the chairman of the board and the chief executive officer, the Fund will support proposals that request that the company appoint a lead or presiding director. Independent directors are best able to evaluate objectively management's recommendations on corporate strategy and specific issues, and generate alternatives and proposals for board consideration. The appointment of an independent director as chairman of the board would help to ensure that the board consistently acts in the best interests of shareholders."[22]
State Street Global Advisors	"We analyze proposals for the separation of Chair/CEO on a case-by-case basis taking into consideration numerous factors, including the appointment of and role played by a lead director, a company's performance, and the overall governance structure of the company."[23]
T. Rowe Price	"Case-by-case, taking into consideration primarily the views of the portfolio manager as to whether the role of board chair should be a separate position. Secondary considerations include the role of the board's Lead Independent Director and the board's overall composition."[24]
Vanguard	"A fund will generally vote against shareholder proposals to separate CEO and chair, absent significant concerns regarding independence or effectiveness of the board. . . . A strong lead independent director generally provides sufficient independent perspective to balance against a non-independent chair. Structures that do not provide a strong counter-voice to insider leadership warrant requiring independent oversight."[25]

[22] New York State Common Retirement Fund, *Environmental, Social & Governance Principles and Proxy Voting Guidelines* (revised April 2018), p. 9.
[23] State Street Global Advisors, "2019 Proxy Voting and Engagement Guidelines: North America (United States & Canada)," posted on ssga.com on March 18, 2019.
[24] T. Rowe Price, "Proxy Voting Guidelines," p. 4.
[25] Vanguard Funds, *Proxy voting guidelines for U.S. portfolio companies* (April 2019), p. 7.

Vanguard's Engagement Guide

Questions for Boards and Company Leaders

Vanguard's April 2019 investment stewardship commentary lays out the key questions they pose to board members and company leaders during their engagement process, centered around their four principles of good governance. Vanguard engages in dialogue with boards and company leaders to understand the current governance practices and to share their perspectives and expectations of portfolio companies.

HOW TO USE THIS TOOL: Directors and other investor-facing members of the company can use the questions below to not only prepare for interactions with Vanguard but other investors as well.

BOARD COMPOSITION:

1. Based on your company's strategy, what skills and experience are most critical for board members, now and in the future?
2. How does the board plan for evolution and future director selection (that is, for strategic board evolution)?
3. How do your company's disclosure and shareholder communications articulate board committee structure and oversight?
4. How does the board define and consider diversity in the director selection process?
5. How does the board assess director, committee, and board effectiveness over time?
6. How does your company ensure effective independent oversight through the composition of the board and selection of board and committee leaders?

OVERSIGHT OF STRATEGY AND RISK:

1. What is the company's long-term strategy, and how might your value proposition evolve over time?
2. What role does the board play in setting your company strategy?
3. How do the board and management team track and measure performance of the strategy?
4. What are the primary long-term risks to your company? What processes/systems are in place to mitigate risk?
5. How is the board involved in the oversight of company risks?
6. How are risks identified and elevated within the company? How is the board involved in that process?
7. How do the board and management determine the company's approach to risk disclosure?

EXECUTIVE COMPENSATION/REMUNERATION:

1. Describe your company's compensation philosophy and how the measures you've chosen align with long-term company strategy and shareholder value.
2. How does the compensation committee set goals for those measures? How does it determine that the goals are set at rigorous performance levels?
3. How does the compensation committee seek to align executive pay with the company's performance relative to peers and the market?
4. What is the process for selecting your company's peer group, and what factors in the selection process are most important?

GOVERNANCE STRUCTURES:

1. How does your company ensure that shareholders have a voice and a vote on governance matters?
2. How do the company's shareholders have basic foundational rights (such as annual election of directors and majority vote standard)?

Source: Vanguard, *What we do. How we do it. Why it matters*, April 2019. © The Vanguard Group, Inc., used with permission.

10 Questions to Evaluate a Board's Fit for Purpose

Future Proofing Your Board Evaluation

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Performance evaluations are critical tools to ensure directors individually and boards collectively are delivering on their oversight responsibilities. Frequent, thorough, and transparent assessments can foster long-term value creation and help boards optimize their performance to align with their companies' strategic goals.

HOW TO USE THIS TOOL: Directors may leverage the following questions to pressure test the effectiveness of their evaluation program and evaluate the board's fit for purpose.

1. Given the organization's strategic direction, risk tolerance, and anticipated opportunities, how does our board ensure its directors have the right mix of expertise, skills, experiences, and backgrounds? Are the company's forward-looking needs appropriately weighted?
2. How does our board determine whether we met our designated priorities for the year? What processes do we use to identify key shortcomings or successes?
3. How often does our board use an independent third-party for evaluations? Do we vary our approach to evaluations in a way that draws out respondents' observations and avoids rote responses?
4. What strategies does our board leverage to ensure directors are thoughtful and candid in identifying areas for continuous improvement at the individual and board levels?
5. Does our board proactively and effectively act to address gaps and improvement opportunities identified in performance evaluations? Do we designate enough time to discuss the results of the evaluation and craft a holistic plan for improvement? Do we closely monitor progress against our post-evaluation goals and hold ourselves, and one another, accountable for meeting these? How regularly do we revisit these to ensure proper follow-through?
6. How does our board—particularly our board's leaders—ensure that meetings are collegial, foster open and honest discussions, and welcome diverse viewpoints? Are mechanisms available to share underlying concerns or grievances? How is consensus around difficult decisions built?
7. How confident is our board that every director is sufficiently knowledgeable and engaged to add significant value to the company we oversee?
8. Does the board chair provide useful feedback to board members to help them improve their performance and address issues in a timely, respectful, and effective way? Is the chair receptive to constructive feedback from other directors about his or her performance?
9. Does our board determine its directors' effectiveness and fitness for future strategy separately from one another? If it's determined that director(s) are no longer fit to oversee the company for its future needs, do we have processes in place, as well as the courage, to offboard director(s)?
10. Has our board considered how best to disclose information about the evaluation process to our investors and other important stakeholders? How have our disclosure practices evolved to keep up with investor expectations and/or demands?

CASE STUDY

Royal Bank of Canada's Approach to Practicing Board Accountability

"The board and its committees annually review their effectiveness as part of their commitment to continuously improve their oversight, guidance, and constructive challenge of management. Managed by the governance committee, this process also includes separate evaluations of the board chair and each committee chair and a peer review of each director. The results inform the board's development of priorities and action plans for the following year. The evaluations also form part of the governance committee's assessment of the skills and competencies director nominees need for election or re-election.

"Our director effectiveness framework identifies the key characteristics and behaviours the board considers essential for each director to fulfil their role successfully. This framework forms the basis of the peer evaluation components of the evaluation and reflects the board's commitment to improvement on an organizational and individual level."

Dedication
- Prioritizes the needs of RBC
- Commits fully to the accountability and success of the board
- Seeks to continuously improve and raise the bar

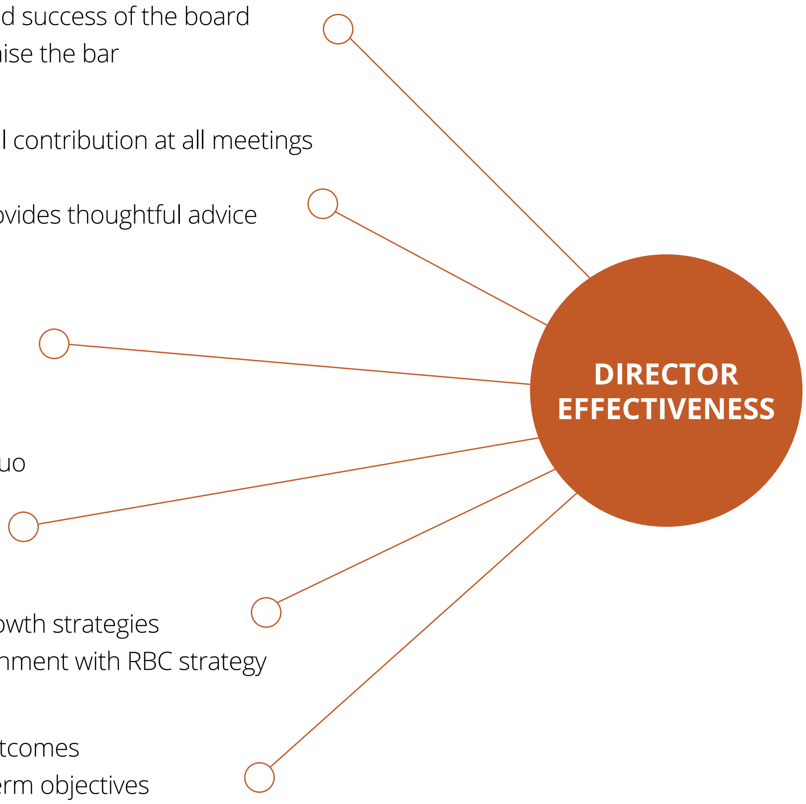
Engagement
- Engages fully and makes a meaningful contribution at all meetings
- Actively promotes collegiality
- Considers the input of others and provides thoughtful advice

Integrity
- Works for the greater good of RBC
- Demonstrates high ethical standards
- Upholds RBC values

Courage
- Appropriately challenges the status quo
- Can make tough decisions
- Champions change

Strategic orientation
- Discusses pros and cons of future growth strategies
- Assesses global opportunities for alignment with RBC strategy

Business acumen
- Focuses on the right performance outcomes
- Balances short-, medium- and long-term objectives
- Exhibits sound judgment and thoughtfully balances trade-offs



Source: Royal Bank of Canada 2019 Proxy Circular, p. 36. Used with permission.

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