September 9, 2010

The Spotlight on Boards

Current focus on the performance of corporate boards prompts revisiting what is expected from the board of directors of a major public company – not just the legal rules, but also the aspirational "best practices" that have come to have almost as much influence on board and company behavior.

Boards are expected to:

- Choose the CEO, monitor his or her performance and have a detailed succession plan in case the CEO becomes unavailable or fails to meet performance expectations.
- Plan for and deal with crises, specially crises like HP where the tenure of the CEO is in question, BP where there has been a major disaster or J&J and Toyota where hard-earned reputation is threatened by product failure.
- Determine executive compensation, achieving the delicate balance of enabling the company to recruit, retain and incentivize the most talented executives, while avoiding media and populist criticism for "excessive" compensation.
- Interview and nominate director candidates, monitor and evaluate the board's own performance and seek continuous improvement in board performance.
- Provide business and strategic advice to management and approve the company's budgets and long-term strategy.
- Determine the company's risk appetite (financial, safety, reputation, etc.), set state-of-the-art standards for managing risk and monitor the management of those risks.
- Monitor the performance of the corporation and evaluate it against the economy as a whole and the performance of peer companies.
- Set state-of-the-art standards for compliance with legal and regulatory requirements, monitor compliance and respond appropriately to "red flags."
- Take center stage whenever there is a proposed transaction that creates a seeming conflict between the best interests of stockholders and those of management, including takeovers.
- Set the standards of social responsibility of the company, including human rights, and monitor performance and compliance with those standards.

- Oversee government and community relations.

- Pay close attention to investor relations and interface with shareholders in appropriate situations.

- Adopt corporate governance guidelines and committee charters.

To meet these expectations, it will be necessary for major companies to have a sufficient number of directors to staff the requisite standing and special committees; to have directors who have knowledge of, and experience with, the company’s businesses, even though meeting this requirement may result in boards with a greater percentage of directors who are not “independent”; to have directors who are able to devote sufficient time to board and committee meetings, and the preparation for them; to provide regular tutorials by internal and external experts as part of expanded director education; and to maintain a true collegial relationship among and between the company’s senior executives and the members of the board.

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