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The Spotlight on Boards

The ever evolving challenges facing corporate boards prompts an updated snapshot of 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 – for consideration in conjunction with [Key Issues for Directors in 2013](#).

Boards are expected to:

- Establish the appropriate “Tone at the Top” to actively cultivate a corporate culture that gives high priority to ethical standards, principles of fair dealing, professionalism, integrity, full compliance with legal requirements and ethically sound strategic goals.
- 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.
- Work with management to navigate the dramatic changes in economic, social and political conditions in order to remain competitive and successful.
- Plan for and deal with crises, especially crises where the tenure of the CEO is in question, where there has been a major disaster or a risk management crisis, or where hard-earned reputation is threatened by a product failure or a socio-political issue.
- Determine executive compensation to achieve the delicate balance of enabling the company to recruit, retain and incentivize the most talented executives, while also avoiding media and populist criticism of “excessive” compensation and taking into account the implications of the “say-on-pay” vote.
- Interview and nominate director candidates, maintain appropriate expertise, independence and diversity balance, monitor and evaluate the board’s performance and seek continuous improvement in board performance.
- Approve the company’s annual operating plan and long-term strategy, monitor performance and provide advice to management as a strategic partner.
- Determine the company’s reasonable risk appetite (financial, safety, reputation, etc.), set state-of-the-art standards for managing risk and monitor the management of those risks within the parameters of the company’s risk appetite.
- Set state-of-the-art standards for compliance with legal and regulatory requirements, monitor compliance and respond appropriately to “red flags.”

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- 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 and attacks by activist hedge funds.
- Set high standards of social responsibility for the company, including human rights, and monitor performance and compliance with those standards.
- Oversee relations with government, community and other constituents.
- Pay close attention to investor relations to develop an understanding of shareholder perspectives on the company, interface with shareholders in appropriate situations and support the fostering of long-term relationships with shareholders.
- Work with management to encourage entrepreneurship, appropriate risk-taking and investment to promote the company's long-term success, despite constant market pressures for short-term performance.
- Review corporate governance guidelines and committee charters and tailor them to promote effective board functioning.

To meet these expectations, it will be necessary for major public companies (1) to have a sufficient number of directors to staff the requisite standing and special committees and to meet expectations for diversity; (2) 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"; (3) to have directors who are able to devote sufficient time to preparing for and attending board and committee meetings; (4) to provide the directors with regular tutorials by internal and external experts as part of expanded director education; and (5) to maintain a truly collegial relationship among and between the company's senior executives and the members of the board.

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