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Board Committees

The 2002 adoption by the stock exchanges of corporate governance rules that require three independent committees—audit (with risk responsibility), compensation and nominating (frequently combined with governance), together with Sarbanes-Oxley and a steady stream of ISS “best practices” have had unintended consequences. The independent committees have three or four members each, the typical board consists of the CEO and 9-11 independent and unaffiliated directors, and there is a lead independent director who has taken on, among other duties, involvement with engagement with shareholders. What is expected from boards has grown exponentially.

While boards have on the whole met the new expectations, there continues to be serious boardroom issues. Major companies such as Boeing, GE and Wells Fargo are current examples. In each case, the board has been the subject of public criticism and investigation or litigation.

Lastly, since August of this year, stakeholder governance and long-term sustainable investment has been strongly embraced by the Business Roundtable, the British Academy and the World Economic Forum. So too have BlackRock, State Street and Vanguard and a number of major institutional investors embraced stakeholder governance and long-term sustainable investment.

In light of the time and responsibility demands on boards, we have been recommending that companies and their directors consider having a sufficient number of directors to staff the requisite standing and one or more special committees and to meet investor expectations for experience, expertise, diversity and periodic refreshment. Also directors and management should consider whether the corporation would benefit from the addition of special committees focused on safety, finance, risk management, compliance, human capital and ESG, or any other special need. Finally, directors and management should consider having directors who have knowledge of, and experience with, the corporation’s businesses and with key developments and drivers that impact those businesses, even if this results in the board having several members who are neither “independent” nor “unaffiliated.” See, [*Some Thoughts for Boards of Directors in 2020*](#).

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