A Framework for Board Governance
What is Good Board Governance?

Quite simply, it is how the board determines the most effective way to fulfill its fiduciary duties to shareholders while being mindful of other stakeholder interests.

Good board governance is not about rules, regulations or checking the boxes. Rather, it is about the board’s ability to work with management to maximize shareholder value.
Guiding Principles

- No two boards are the same
  
  *If you’ve seen one board, you’ve seen ‘one board’*

- The board cannot run the company
  
  *Nose in, fingers out*

- There is no single set of ‘best practices’
  
  *There are many ‘good practices’*
What is the Role of the Board?

Boards must address three essential questions:

- Do we have the right CEO?
- Do we agree on a short-term successor while assuring that the company has a robust succession plan?
- Do we have the right strategy, and is it being effectively implemented?
Characteristics of High-Performing Boards

- A group dynamic that balances collegiality with candor
- A fundamental understanding of the business
- An appropriate blend of experience, expertise and wisdom
- A commitment to invest time and energy in the board and the company
- A healthy working relationship with the CEO
Board Size

- 7-10 members is optimal for effective group dynamics
- S&P 500 average board size is 10.8; average size is 9 for mid-cap companies and 8 for small-cap companies
- Larger boards are often necessary when more than the three required committees are needed, such as Enterprise Risk, Finance and others
Board Membership

- Diversity in its fullest sense
- The best resume does not assure a constructive, valuable board member
- Wisdom and experience make all the difference
- A skills matrix should be utilized (see sample matrix)
Board Structure

- Three required committees: Audit, Compensation and Governance/Nominating
- An Executive Committee is useful on an ad-hoc basis but avoid a board-within-a-board
- Committee structure can dictate schedule
- ‘Committee of the whole’ such as Compensation or Governance/Nominating can be helpful
Board Schedule

- Frequency of formal board meetings ranges from 4-6 per year supplemented by telephone meetings as required.
- Board meetings generally occur over two days and may include periodic board retreats.
- Board schedules matter and should be thoughtfully planned.
Board Leadership

- If the CEO is not the Chairman, then the board is led by the independent non-executive Chairman.
- The role of the non-executive Chairman, Lead or Presiding Director should be clearly defined.
- Within its schedule, the board must decide when to hold the meeting of the independent directors and when and how to best provide feedback to the CEO.
Other Important Issues

- Board, Committee and CEO annual assessment process
- Peer-to-peer assessments
- Enterprise risk management
- Communication to board between meetings
- Board communication to shareholders
- Board compensation (including stock-holding requirements)
- Elections: staggered vs. annual; majority vs. plurality
- Director succession planning
- Retirement age/term limits
- Continuing board education
## Any Corporation – Succession Planning / Skills Matrix (SAMPLE)

<table>
<thead>
<tr>
<th>Annual Meeting at which Director is not eligible for re-election</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2021</th>
<th>2023</th>
<th>2027</th>
<th>2030</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present age</td>
<td>70</td>
<td>69</td>
<td>68</td>
<td>66</td>
<td>64</td>
<td>60</td>
<td>57</td>
</tr>
</tbody>
</table>

### Background / Experience

<table>
<thead>
<tr>
<th>Board Committees</th>
<th>• Audit</th>
<th>• Audit</th>
<th>• Audit</th>
<th>• Compensation</th>
<th>• Compensation</th>
<th>• Compensation</th>
<th>• Audit</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Governance</td>
<td>(C)</td>
<td>(C)</td>
<td>(C)</td>
<td>(C)</td>
<td>(C)</td>
<td>(C)</td>
<td>(C)</td>
</tr>
</tbody>
</table>

| Independent      | X       | X       | X       | X              | X              | X              | X       |
| Audit Committee  | X       | X       | X       | X              | X              | X              | X       |
| Financial Expert | X       | X       | X       | X              | X              | X              | X       |
| Financially       | X       | X       | X       | X              | X              | X              | X       |
| Literate         | X       | X       | X       | X              | X              | X              | X       |
| International    | X       | X       | X       | X              | X              | X              | X       |
| Marketing        | X       | X       | X       | X              | X              | X              | X       |
| IT               | X       | X       | X       | X              | X              | X              | X       |
| Manufacturing    | X       | X       | X       | X              | X              | X              | X       |
| Retail           | X       | X       | X       | X              | X              | X              | X       |
| Human Resources  | X       | X       | X       | X              | X              | X              | X       |
| Governance       | X       | X       | X       | X              | X              | X              | X       |
| Government /     | X       | X       | X       | X              | X              | X              | X       |
| Gov’t Relations  | X       | X       | X       | X              | X              | X              | X       |