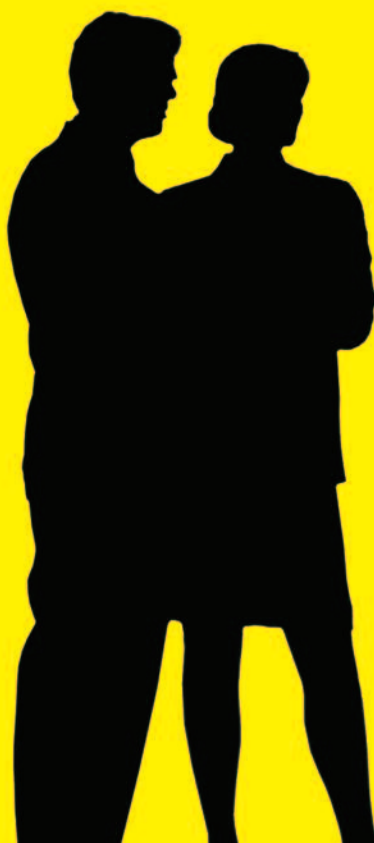


2008 SPECIAL SUPPLEMENT

*The Corporate Board Member/PricewaterhouseCoopers Survey 2008*

# WHAT DIRECTORS THINK



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Dear Corporate Director,

In our seventh annual survey of U.S. corporate directors, we weren't surprised to learn that board members are closely focused on the foundational issues of governance: strategic planning, management succession, and, most of all this year, risk management. These findings validate previous years' results and once again demonstrate that board members are aware of the serious work that will be required to succeed in the months ahead.

The 2008 What Directors Think survey, coproduced by *Corporate Board Member* and PricewaterhouseCoopers LLP, reached 1,040 corporate directors to ascertain which board functions they feel are most challenging, which ones they are most confident about, and in which areas they believe they are most effective. This special supplement presents the full results as a companion to *Corporate Board Member* magazine's November/December editorial coverage.

We would like to thank the many directors who participated in the survey and shared their opinions and insights for this important benchmarking study. We hope this supplement provides interesting fodder to spark discussions among your company's directors and management.



A handwritten signature in black ink, appearing to read 'TK Kerstetter'.

**TK Kerstetter**  
President and CEO  
*Corporate Board Member*



A handwritten signature in black ink, appearing to read 'Catherine Bromilow'.

**Catherine L. Bromilow**  
Partner, Corporate Governance  
PricewaterhouseCoopers LLP

# DIRECTORS INCREASINGLY FOCUSED ON ENTERPRISE RISK MANAGEMENT

*Strategic planning, management succession, and director recruitment also remain top board priorities.*

The 2008 What Directors Think study, cosponsored by PricewaterhouseCoopers LLP and *Corporate Board Member*, confirms that U.S. corporate directors are focused on risk management as an important, ongoing boardroom priority. Directors' other top concerns are strategic planning, succession planning, and the recruiting of new members to enhance board strength and skills. This year's results represent the seventh annual survey of more than 1,000 directors who sit on U.S. public company boards.

## The Need for Strategic Planning and Risk Management

Boards are currently facing some of the most difficult macroeconomic issues in decades, and the need to focus on strategic planning and the monitoring of risk has never been more acute. This year's study reveals that 66% of directors say they want to increase the amount of time spent on strategic planning—the highest percentage recorded in the past seven years.

Boards also recognize the critical need to spend adequate time on risk management; indeed, 34% of directors surveyed say they want to increase the amount of time they are spending on that function. Interestingly, while a majority of the 1,040 directors who participated in the survey say they can adequately meet their responsibility for monitoring a company's multitude of risks, their overall effectiveness rating for risk management (51% say they are effective) is not as strong when compared with other core areas such as the audit committee's ability to monitor financial reporting (95%) or the compensation committee's ability to manage CEO pay (83%). This is perhaps due to the overwhelming scope that is involved in coming to grips with understanding enterprisewide risk and risk/reward analyses.

"Risk management continues to be among the top concerns for directors," says Catherine L. Bromilow, corporate governance partner at PricewaterhouseCoopers. "And directors increasingly are recognizing just how difficult it is to get a full grasp of the risks being taken in a company and to get comfortable that their view of the appropriate level of risk aligns with management's view."

## Succession Planning

The need to identify and retain capable leadership is another of the board's most important responsibilities, and each year, directors' responses reflect their awareness of this imperative. Yet in 2008, just 53% of directors say they are effective at completing a management succession plan (down from 61% from our last tally in 2006), and 41% admit they'd like to spend more time in this area.

According to *Corporate Board Member* CEO TK Kerstetter, there is no greater need today than to have boards that are focused on ensuring the company's leadership is in good hands. "It is very critical to have the right management and the right culture. Foundationally, that is the board's main responsibility," Kerstetter says. "A viable CEO succession program is a must to ensure continuity in good leadership."

Why is management succession an ongoing challenge for boards? Our past surveys have noted lack of a well-defined process, as well as the sensitivities of the parties involved, which may be partly responsible for boards' reticence to meet this issue head on.

## Bolstering Board Effectiveness

While the need to have a good CEO succession plan is a top-of-mind issue for corporate boards, planning for director succession is often a lower priority. Yet, preparing for the turnover of board members and identifying the skill sets needed is a critical part of board performance and effectiveness.

There are challenges with finding qualified directors, as most board members will readily admit. This year, 53% of directors say they believe there is a shortage of qualified directors—which means boards often find themselves competing for plum candidates, who are themselves vetting potential board seats with greater scrutiny. But good governance can help open those doors: According to 81% of directors surveyed this year, companies with good governance enjoy a greater level of ease in recruiting new board members.

In addition, as companies expand their global presence and as strategy becomes increasingly driven by technological developments, boards are looking to broaden their bench strength with talents and skills that give them a better grasp

of these areas. But this can be a challenge as well: Over half of boards say they have had difficulty adding directors with technology or international experience. In our view, this hurdle could be partially overcome by casting a wider net for candidates who have not yet served on a board. While the majority of directors are open to this approach, more than a third of directors in our survey say their board has reservations about bringing in a new director without previous board experience.

“Getting different experiences, broader knowledge bases, and diverse perspectives around a board table can only help a company get to a better, well-considered answer at the end of the day,” says Bromilow.

Along with enhancing board composition, boards can also increase their effectiveness by having a good communication process with management and by using key members of management to stay informed of current topics. For example, says Bromilow, “a really astute technology business person can help the board understand the implications of the issues, especially if the company is in an industry where technology is vital.”

## Conclusion

Looking ahead to the new year, U.S. corporate boards will face a multitude of pressing challenges. The turmoil in the markets and the uncertainty over the timeframe for economic recovery will place heavy concerns on the boardroom table, and board members will face many tough decisions in the months ahead. However, the importance of good governance will not wane, nor will the importance of ensuring strong leadership, a well-defined strategic vision, and a solid understanding of risk management—all of which will help boards make sound decisions that will lead to a healthy future and ongoing value for shareholders.



# ENTERPRISE RISK MANAGEMENT

## FIGURE 1

**Your feeling about the economy** over the next 12 to 18 months could be characterized as:

The worst is behind us, we are turning a corner.	8%
The economy will hit its trough in 3–6 months.	42%
The economy will hit its trough in 7–12 months.	43%
The economy will hit its trough in 13–18 months.	7%

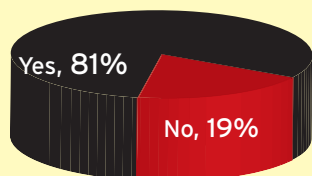
## FIGURE 2

**How difficult is it to ensure** the company's strategy and risk appetite are appropriate?

Very difficult	15%
Difficult	43%
Somewhat difficult	34%
Slightly difficult	7%
Not at all difficult	1%

## FIGURE 3

**Do you feel board members can** adequately meet their responsibility of monitoring a company's multitude of risks?



**ANTICIPATING THE UNEXPECTED. IDENTIFYING POTENTIAL RISK. ASSESSING ITS POSSIBLE IMPACT. ACTING TO MITIGATE EXPOSURE AND MAXIMIZE BENEFIT. ALL ARE ESSENTIAL COMPONENTS OF ENTERPRISE RISK MANAGEMENT, THE OVERSIGHT OF WHICH IS ONE OF THE BOARD'S PRIME RESPONSIBILITIES.**

Among other things, the U.S. financial crisis has clearly shown that it's vital for directors to ask probing questions about key variables in any strategic risk equation. Today, as many companies try to meet the challenges associated with the volatility of the market and the long-term economic recovery, the importance of risk management is well understood. In our view, companies that are equipped with the right leadership skills will be able to work through these challenges and capitalize on opportunities by successfully navigating risk in the year ahead.

### The Economy

At present, the greatest overarching challenge facing companies is the state of the economy. We asked directors this past spring to prognosticate about the timing of an economic recovery. In May, only 8% of directors believed the worst had passed, and 42% said the economy would hit its trough in three to six months [or roughly the print date for this publication]. Another 43% said they thought it would take seven to 12 months for the economy to bottom. Only 7% said the worst was further out—13 to 18 months (Figure 1). If the more optimistic segment of these directors are correct, the U.S. economy will begin to recover by the end of 2008.

### Directors' Ability to Manage Risk

From our survey, directors across the board say ensuring that the company's strategy and risk appetite are appropriate is not an easy task—most say it is difficult (Figure 2). And while it is a positive sign to see that 81% of respondents say they believe directors are capable of fulfilling their responsibility to monitor a company's multitude of risks, the one-fifth who say they do not believe this to be the case shows that there is likely to be a significant number of directors who lack the necessary skills and confidence in this area (Figure 3).

When asked to rate their boards' effectiveness in monitoring a risk management plan that mitigates corporate exposures, directors are more evenly split. While half of directors surveyed rate their boards as effective or very effective at this function, the other half rate their boards as only somewhat effective—or worse (Figure 4). Among that latter group, the majority (54%) say they would like to spend the same amount of time on risk management; 43% percent say they would like more time spent on it.

Looking at the entire survey group, one in three directors would like to see their boards spend more time on risk management, but the majority (64%) indicate they would like to spend the same amount of time on this

function (Figure 5). Despite the increased emphasis on risk management, this is not particularly surprising, since many boards significantly stepped up their efforts after the governance reforms we saw in the early 2000s.

To help address the broad scope of corporate risk management, some boards designate a separate committee for that purpose, yet that occurrence remains relatively rare—this year’s study shows only 10% of boards have a risk committee. Furthermore, only 9% of directors sitting on boards that don’t currently have a risk committee say their board should add one, perhaps because boards see risk oversight as an issue that the full board should address.

Another way of enhancing the board’s focus on risk management is to invite the company’s chief risk officer to participate in board meetings. This approach can be both efficient and substantive, as the CRO’s job is to monitor the state of risk across operational areas, and he or she can provide a meaningful perspective to directors through a regular report. However, only 8% of the boards represented in our study regularly have the chief risk officer attend board meetings, and only 13% of directors say they believe the CRO should regularly attend (Figure 6).

Instead, directors say the chief financial officer and/or general counsel are tapped most often to attend board meetings as a resource. Among board members surveyed, 93% report that the CFO regularly attends board meetings; 84% report that the general counsel is in regular attendance. Both these individuals are ideally suited to help analyze specific strategic and financial issues, which greatly aids board members in their enterprise risk analyses.

The recent fallout from the economic and market crisis clearly demonstrates that overseeing risk is a critical area that demands dedicated board focus going forward. Directors, therefore, should ensure they are receiving high-quality and timely information to make sure they have all the resources and tools needed to meet the responsibilities ERM entails.

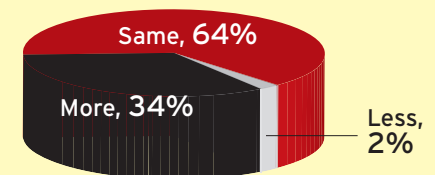
#### FIGURE 4

**How would you estimate the effectiveness of your board to monitor a risk management plan to mitigate corporate exposures?**

Very effective	6%
Effective	45%
Somewhat effective	43%
Ineffective	6%

#### FIGURE 5

**Would you like your board to devote more, less, or the same amount of time to risk management?**



#### FIGURE 6

**Which nonboard members typically sit in on regular board meetings?**

CFO	93%
General counsel	84%
Chief operating officer	49%
Corporate secretary	48%
Human resources director	22%
Outside counsel	17%
Chief marketing officer	12%
CIO/CTO	8%
Chief risk officer	8%
Internal auditor	8%

# THE NEED FOR LEADERSHIP

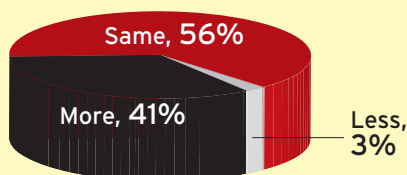
## FIGURE 7

**How effective is your board's ability to complete a management succession plan?**

Very effective	14%
Effective	39%
Somewhat effective	35%
Ineffective	10%
Very ineffective	2%

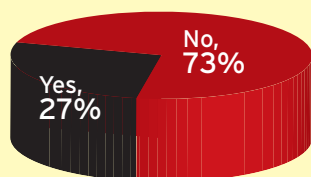
## FIGURE 8

**Do you want your board to spend more time, less time or the same amount of time on succession planning?**



## FIGURE 9

**Do you think your board could recruit a new CEO without offering an employment contract?**



**A COMPANY'S PERFORMANCE RELIES HEAVILY ON THE LEADERSHIP SKILLS OF ITS MANAGEMENT TEAM, WHICH WORKS UNDER THE DIRECTION AND VISION OF THE KEY PERSON AT THE TOP—THE CEO. WITHIN HIS OR HER ROLE, THE CEO IS RESPONSIBLE FOR ALL ASPECTS OF MANAGEMENT AND DELIVERS KEY INFORMATION TO THE BOARD ON PERFORMANCE, COMPETITION, RISK, EARNINGS GROWTH, CAPITAL, AND MUCH MORE.**

While the CEO is the visionary and the top manager, it is the board's responsibility to make sure the right CEO is in place. Thus, a well-thought out succession process should be in place in the event of a CEO's planned or sudden departure. This year's survey reveals that only a little over half (53%) of the directors are confident their boards are handling succession planning effectively, while others say they are either somewhat effective or ineffective, leaving much room for improvement in this crucial area (Figure 7).

Directors' desire to spend more time on this topic is a common refrain that is again validated in this year's survey responses. While a relatively large number of boards (64%) have increased the amount of time spent on succession planning over the past two years, 41% of individual respondents say they still want to increase that time allotment (Figure 8)—a trend that is consistent with our results since 2004.

For boards that are in the throes of a succession crisis, the process of recruiting and hiring a new CEO may also be getting more difficult. Executives' demands have risen, and the ability for companies to offer competitive employment packages is often a major challenge. For example, only 27% say they think their board could recruit a new CEO without offering an employment contract (Figure 9).

## Comfort Level with the CEO and the Strategic Plan

Just as the board must have a viable executive succession plan, it needs to have an effective means of evaluating the executive talent currently in place. This task is often characterized as challenging, and nearly half the directors (46%) represented in our study find it difficult to evaluate CEO performance (Figure 10).

One approach to evaluating the company's leadership is for directors to assess their comfort level with the strategic direction of the company. This means directors must have a good understanding of the strategic plan and the expectations that it sets out. According to this year's survey, directors' interest and emphasis on strategic planning appears to be growing: 66% of respondents (compared with 56% two years ago) say they want to spend more time on strategic planning (Figure 11)—a higher percentage than in any other discussion category provided. Most boards consider strategic planning within the scope of the full board meetings and only (9%) have designated a strategic planning committee.

## The Board/CEO Relationship

When the goals and objectives of the strategic plan are being met, the board and management often are given credit for their leadership vision and for their skill in execution. During a downturn, or a crisis, fingers immediately point back to those same leaders, demanding accountability and solutions. And though sometimes missed earnings targets or stock declines have external causes, other times, a weakness in leadership is the root of a company's problem, and must be dealt with accordingly by the board.

When the board feels strongly that sensitive topics such as the CEO's performance, compensation, or a conflict of interest must be openly discussed among the outside directors, their vehicle for doing so is a closed meeting, or executive session. Taking this measure ensures that proper questions are asked and answered and that protocols for action are followed without undue influence from the CEO. Furthermore, such sessions have been required by the NYSE since releasing its revised listing standards in 2003, just after the passage of the Sarbanes-Oxley Act.

This year's What Directors Think survey finds that 98% of directors say they participate in executive sessions and 93% find them useful. However, 19% say they aren't sure their CEO appreciates their value (Figure 12). One reason for a CEO's dissatisfaction could be a lack of communication. While 99% of directors believe their board shares appropriate issues with the CEO after an executive session, it may be advisable for boards to take a closer look at whether those follow-up communications are flowing smoothly within their organizations.

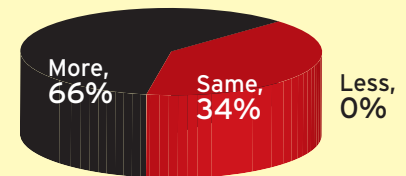
**FIGURE 10**

**How difficult is it to evaluate CEO performance?**

Very difficult	11%
Difficult	35%
Moderately difficult	41%
Slightly difficult	11%
Not at all difficult	2%

**FIGURE 11**

**Do you want your board to spend more time, less time or the same amount of time on strategic planning?**



**FIGURE 12**

**Which of the following best describes the value of your board's executive sessions?**

Very useful to the board and the CEO clearly understands their value	74%
Very useful to the board but not sure the CEO appreciates their value	19%
Not particularly valuable to the board	4%
Not particularly valuable to the board and have strained the CEO/board relationship	1%
Our board does not conduct executive sessions of independent directors	2%

# BUILDING THE BOARD TO MEET GROWING CHALLENGES

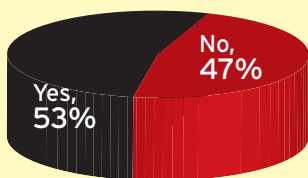
## FIGURE 13

**Percentage of boards that find it difficult to add directors with the following skill sets:**

Technology expertise	56%
International expertise	51%
Financial expertise	43%
Marketing expertise	43%
Legal expertise	19%

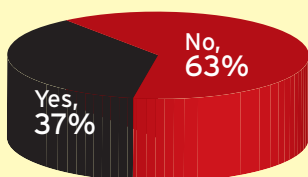
## FIGURE 14

**Do you think there is a shortage of qualified directors for today's companies?**



## FIGURE 15

**Does your board have any reservations about bringing in a new director without previous board experience?**



RECRUITING GOOD DIRECTORS HAS ALWAYS BEEN A CHALLENGE. TODAY, BOARDS FACE ADDITIONAL CHALLENGES IN FINDING DIRECTORS WHO CAN BRING INTERNATIONAL AND TECHNOLOGICAL SKILLS, AS WELL AS A MORE DIVERSE CULTURAL BASE TO THE TABLE, TO ENSURE THEIR COMPANIES REMAIN COMPETITIVE AND IN SYNC WITH A QUICKLY CHANGING BUSINESS WORLD.

### Filling in Knowledge Gaps

The frenetic pace of technological change makes it difficult for directors to stay abreast of new products, services, and strategies that allow their companies to achieve high performance. Moreover, a board's lack of understanding about the newest developments in security systems and online abuse can create risk and, in certain cases, bring corporate liability. Many boards attempt to bridge this knowledge gap by adding members who have strong technology background, yet over half (56%) of boards surveyed say they have found it difficult to recruit directors with technology experience (Figure 13).

In addition to addressing technology gaps, the need to add more depth to the board's knowledge about international issues has also gained momentum in recent years. Despite the fact that more and more businesses are extending their reach globally, 51% of directors report it has been a challenge recruiting directors with international expertise.

These two areas may provide the most pointed challenges we observe facing director recruitment, but stepping back, it is important to look at the larger picture to put them into perspective: Over half (53%) of directors in our study think there is a general shortage of qualified directors for today's companies (Figure 14).

Exacerbating this challenge, the study indicates many boards (37%) may be limiting their field of prospective directors by hesitating to consider individuals who have not had previous board experience (Figure 15). In our view, this may prove short-sighted, as casting a wider net could provide an opportunity for boards to fill the certain knowledge niche, as well as increase board diversity by adding members who represent a broader demographic.

Perhaps boards are concerned about extending their membership to untested directors because they fear it will be too difficult for them to get up to speed—a concern for which there is some legitimate basis. Indeed, when compared with more seasoned members, freshman directors (those with one year or less board experience) are about six times more likely to say they do not have sufficient board meeting time to comply with their duties, compared with directors with one or more years on the board.

### The Board's Knowledge Base

Keeping the board informed on key matters involving the company's business is an overwhelming task. For the most part, directors think management is

doing a good job of keeping them updated on their industry and the competitive landscape, but are less inclined to rate management highly on informing them on technology issues (Figure 16).

No matter how much board experience or information a director has, support for director training is widespread—71% of respondents say directors should be required to attend board training. Despite the show of support for education, only 37% of boards have a formal budget for director education, down slightly from 40% in the 2007 survey. (It should be noted that some boards provide educational opportunities that do not require a formal budget, which may influence a lower response rate to this question.)

The study reveals several areas in which companies could be doing more to increase their board members' knowledge. For instance, we asked directors to rate how well they understand their companies' financial statements on a five-point scale. While 90% of directors rate themselves at the two highest levels of understanding, only about half (51%) rated themselves as “completely” understanding their companies' financial statements.

Similarly, if we look at only the highest levels of understanding, 60% of directors say they completely understand discussions with management about financial statements and 55% report they completely understand discussions with external auditors about financial statements. These findings help support the idea that additional training could help directors focus in on the questions they should be asking and help them improve their overall understanding of financial statements.

## Committees

Most publicly traded company boards have nominating/governance, compensation, and audit committees. Of those, the audit committee has experienced the highest increase in workload since the additional transparency and accountability mandates of Sarbanes-Oxley, with the compensation committee a close second after the SEC formalized its disclosure requirements two years ago. In terms of the difficulty of responsibilities, directors rate the audit committee highest, according to the survey (Figure 17).

In recent years, there has been a trend toward creating more noncore committees to help delegate responsibilities and create more focus around specialized issues. Among those: strategic planning committees, technology committees, risk management committees, and social responsibility/sustainability committees have emerged. And while only 10% of boards report having a separate risk management committee and only 9% report the existence of a strategic planning committee, both of these areas are notable by having the highest percentages of directors who think their boards should add those committees (Figure 18). This is in keeping with other survey findings that validate, year after year, the immense importance of both strategic planning and risk management as foundational areas in the minds of corporate directors.

### FIGURE 16

**Does your company do enough to keep board members updated on its industry, competition, and technology?**

	Yes	No
Industry	84%	16%
Competition	74%	26%
Technology	56%	44%

### FIGURE 17

**Responsibilities rated as difficult/very difficult:**

Serving on the audit committee	80%
Serving on the compensation committee	65%
Determining CEO compensation	61%
Ensuring strategy and risk appetite are appropriate	58%
Evaluating CEO performance	46%
Ensuring the integrity of financial statements	35%
Understanding the company's marketplace	25%

### FIGURE 18

**Noncore committees**

	Currently have	Our board should add
Executive	44%	6%
Finance	35%	5%
Risk management	10%	9%
Strategic Planning	9%	17%
Social responsibility/Sustainability	6%	5%
Technology	6%	8%
Permanent M&A	5%	5%

# CORPORATE GOVERNANCE

## FIGURE 19

**Percentage of directors who think good corporate governance affects the following:**

Ease of recruiting new directors	81%
Improvements in your company's reputation	67%
The odds that you will be exonerated in litigation	66%
D&O premium rates or coverage	58%
The likelihood of being named in securities litigation	56%
Your CEO's compensation	29%
Stock price	27%
Directors compensation	19%

## FIGURE 20

**Percentage of boards that undergo regular performance evaluations:**

2008	88%
2007	88%
2006	86%
2005	84%
2004	73%
2003	50%
2002	33%

## FIGURE 21

**Who facilitated the evaluation process this year?**

Internal GC	34%
Outside attorney	12%
Third party adviser	11%
Internal officer	8%
Other	35%

THE BASIS FOR GOOD CORPORATE GOVERNANCE IS PRIMARILY ESTABLISHED BY RESPECTING AND UNDERSTANDING THE BOARD'S FIDUCIARY RESPONSIBILITIES TO THE COMPANY'S SHAREHOLDERS. THE BOARD'S DECISIONS AND ACTIONS, GUIDED BY DUTIES OF LOYALTY AND CARE, IS UNDERPINNED BY A FOUNDATION OF INTEGRITY, ETHICS, AND THE INSTITUTION OF BEST PRACTICES. WITHIN OUR STUDY, WE ASKED DIRECTORS ABOUT THE CHALLENGES THAT ARE AFFECTING SOUND CORPORATE GOVERNANCE AND SHAREHOLDER RELATIONS TODAY.

### Governance and Company Reputation

Directors say good governance has an impact that goes far beyond shareholder relations. Among other things, our study shows directors think good governance improves their companies' reputations (67%), the odds that a director will be exonerated if named in litigation (66%), and the premium or coverage provided by D&O insurance (58%). They also believe it increases the ability to recruit new directors (81%) and decreases the likelihood of being named in securities litigation (56%). Fewer directors think good corporate governance affects CEO compensation (29%), stock price (27%), and director compensation (19%) (Figure 19).

### Red Flags

Even in well-governed companies that follow best practices and have good intentions, problems—which are often preceded by warning signs—can occur. Each year, we ask directors to consider a list of items that could signal the need for more board involvement. This year, we asked them to rank nine red flags in order of importance. Overwhelmingly, directors say an earnings restatement is the red flag that concerns them the most. Poor employee morale was second, followed by an adverse 404 opinion and a poor customer satisfaction track record.

**TABLE 1**

#### **Red flags that should signal a director to step up his or her board involvement**

1. Company has to restate earnings
2. Poor employee morale
3. Adverse 404 opinion
4. Poor customer satisfaction track record
5. Management misses strategic performance goals
6. Company is target of employee lawsuits
7. Stock price declines
8. Quarterly financial results misses analysts' whisper numbers
9. Low ISS governance quotient rating

### Evaluating Board Governance

The way in which a board functions can have a great impact on its ability to serve as an advocate for shareholders and other constituents. Over the past

seven years, the number of boards that have their performance evaluated on a regular basis has grown—from 33% in 2002 to 88% in 2007, a number that held steady in 2008 (Figure 20). The majority of directors (55%) say the evaluation process is effective at improving board performance.

The company’s general counsel remains the most likely person in 2008 to facilitate the evaluation process, but he or she does so for only 34% of represented boards (Figure 21)—compared with 53% in 2007 and 58% in 2006. Outside facilitators—either an attorney or a third-party adviser—are used by about a third of boards. And while some directors are reluctant to open themselves up to a third party’s scrutiny, in a related finding, three-quarters of directors would be willing undergo an outside board assessment if it could lower their D&O liability policy cost.

To analyze how boards are functioning overall, we asked directors to rate their boards on several areas of responsibility. Our results show the vast majority of boards say they are most effective at challenging management and adopting meaningful ethics policies. At the committee level, boards also rate themselves relatively well. Directors are confident their audit committees are effectively monitoring accurate financial reporting and are only slightly less confident in their compensation committees’ abilities to properly manage CEO compensation (Figure 22).

### Lead Directors

One corporate governance trend gaining ground is the appointment of a lead director to enhance board independence and effectiveness. Increasingly, boards have come to realize that the lead director can improve the quality of communication between the independent directors and management. Just over three-quarters (76%) of boards have named a lead or presiding director according to the survey, and for the vast majority of those boards (96%), the position is working effectively, directors say.

### Shareholder Access to the Board

One sensitive issue boards sometimes face is how and when to interact directly with the shareholders to whom they are accountable. In an era when shareholder activism has risen to new heights, one question that weighs heavily on many directors is, how much access should shareholders have to the board?

Our survey shows directors have mixed views depending on how the notion of “access” is framed. Corporate reforms that have required increased transparency have led some directors to shun additional intrusion beyond what is mandated. Others seem to feel that certain shareholders—possibly large institutional investors whom they view as their most influential source (Figure 23)—should be allowed more access during meetings for that purpose. Over half are open to the idea of taking shareholders’ questions as long as they are at the annual meeting. At this time, there is no mandate for a best practice regarding shareholder access, and thus, we believe that determining appropriate levels of communications will continue to evolve in the years ahead.

**FIGURE 22**

**Percentage of directors who believe they are effective at the following:**

Audit committee's ability to monitor accurate financial reporting	95%
Board's ability to challenge management when appropriate	90%
Board's ability to adopt a meaningful ethics policy	88%
Compensation committee's ability to properly manage CEO compensation	83%
Board's ability to create an agenda that best uses the board's time	71%
Board's ability to complete a management succession plan	53%
Board's ability to monitor a risk management plan to mitigate exposures	51%

**FIGURE 23**

**Which of the following groups do you believe influence your board the most in 2008?**

Institutional investors	49%
Analysts	31%
ISS and rating agencies	11%
Plantiffs’ bar	2%
Media	2%
Activist hedge funds	5%

# BOARD AND COMMITTEE FUNCTIONS

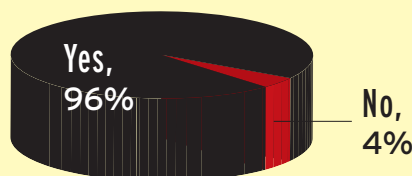
## FIGURE 24

**How many hours per month do you estimate you spend on board matters?**

2008	– 20 hours
2007	– 20 hours
2006	– 21 hours
2005	– 22 hours
2004	– 19 hours
2003	– 19 hours
2002	– 14 hours

## FIGURE 25

**Do you have sufficient board meeting time to comply with your duties as a director?**



## FIGURE 26

**Typically, how long are your full board meetings?**

2 hours or less	2%
3-4 hours*	26%
5-6 hours	38%
7-8 hours	22%
9-10 hours	6%
More than 10 hours	6%

EACH YEAR, OUR SURVEY SEEKS TO BETTER UNDERSTAND HOW THE MECHANICS OF BOARD FUNCTIONS ARE CHANGING, HOW WELL THEY ARE OPERATING, AND TO LOOK AT HOW THE BOARD PRIORITIZES ITS VALUABLE TIME.

### Board Meeting Times

The time it takes for directors to fulfill their duties has changed dramatically over the last seven years, but this year's study shows directors' time commitment has leveled out.

The average time directors spend (per month) on board matters has remained steady at 20 hours (Figure 24). While that number is a significant leap from the figure we saw in 2002, it's remained fairly stable since 2003.

Full-board meeting lengths vary by board, but most boards fall somewhere in the middle of the curve—between three and eight hours, and the vast majority of directors (96%) feel their meeting time is sufficient to fulfill all their duties as directors (Figure 25). Just over one-quarter (26%) of boards' meetings last from three to four hours. Thirty-eight percent meet from five to six hours. About one in five (22%) meet from seven to eight hours. Very few boards (2%) meet for two hours or less. Likewise, relatively few boards meet for nine to 10 hours (6%) or more than 10 hours (6%) (Figure 26).

### Reviewing Committee Minutes

In light of the sheer amount of responsibility that falls on the board, many items are delegated to committees to discuss in more detail and make recommendations to the full board. While doing so is a necessity, it is important that all directors are informed and fully understand the activities and decisions of these committees. Interestingly, this year's study shows that only one in five boards undertakes an in-depth review of committee minutes at the full-board meeting. Half of boards review the minutes briefly. Only 36% question issues in the minutes that are not fully understood. And, somewhat surprisingly, 14% accept the minutes as they stand, generally without question (Figure 27).

On its face, these numbers might seem to suggest that some boards are delegating too many items to committees without the proper checks and balances, but the real story could have more to do with the timing of minutes review. For instance, committee chairs typically have a report at the full board meeting, which often immediately follows committee meetings. The minutes from the committee meetings cannot be approved until the next time the committee meets and so, to some extent, they are "old news" by the time they are shared with the board. Also, some boards deal with committee minutes during nonmeeting time—for instance, via e-mail—so questions and concerns on committee work are answered prior to the board's next full meeting. No matter what process the board uses, the important thing is to have open discussions, weigh concerns, and feel comfortable with all resulting actions and decisions with regard to committee work.

## Committee Meeting Length

Committee meetings tend to be shorter than full-board meetings. On average, governance and nominating committees meet for approximately two hours or less (86%). Compensation committees meetings run anywhere from two hours and under (49%) to three to four hours (45%). Most audit committees meet for three to four hours (60%), or five to six hours (15%) (Figure 28).

## The Changing Face of the Board's Agenda

Beyond the current economic and financial issues plaguing corporate America near the close of 2008, the issue of sustainability and environment/resource management practices is one progressive arena in which we expect board leadership will play an emerging role.

Institutional investors are paying attention to how pollution, predictions on climate change, and the continued availability of natural resources have an effect on enterprise risk and the long-term strategic plan of the company. Moreover, companies can be greatly affected by a sudden scarcity of fuel, as many found in the 2008 post-hurricane gas shortage in several U.S. regions. And the public remembers major environmental disasters long after they have been ameliorated. Our results this year show that over one-third of boards (39%) plan to spend more time looking at sustainability issues, although the majority (59%) do not anticipate any change in their approach to the issue (Figure 29). Only three out of the approximately 725 boards represented in our study have a chief sustainability officer who regularly attends board meetings. Six percent of boards currently have a social responsibility/sustainability committee; another 5% believe their board should add such a committee.

Issues such as sustainability are often seen as soft, but they can have tremendous bottom-line impact where investors and customers are involved. Yet, no matter how you approach them, environmental and climate change issues are highly charged with emotion. Because of this, sustainability and social responsibility issues are not easy subjects to approach with neutrality, or to weigh like any other company risk factor, though more and more, boards are expected to do so. As these issues become more prevalent and important to corporate constituencies, we will continue to watch how boards approach these agenda topics in the future.

### FIGURE 27

**How does your board review the committee minutes during full-board meetings?**

Our board reviews the minutes briefly.	50%
Our board reviews the minutes in depth.	20%
Our board questions issues in the minutes that are not fully understood.	36%
Our board accepts the minutes as they stand and generally does not question the report.	14%

### FIGURE 28

**How long do committee meetings last?**

	Gov/Nom	Comp	Audit
2 hours or less	86%	49%	24%
3-4 hours	13%	45%	60%
5-6 hours	1%	5%	15%
All day	0%	1%	1%

### FIGURE 29

**Will the board spend more time this year than in the past considering social responsibility and sustainability/environmental issues?**

Yes, much more time and focus than in the past.	5%
Yes, but not a great increase from the past.	34%
No, I don't expect any change in time and focus.	59%
No, change, because it has always been a major focus.	2%
No, we will decrease our time and focus.	0%

# DIRECTOR LIABILITY

## FIGURE 30

**What do you expect the consequences will be for directors who are associated with significant write-downs from the subprime and credit market situations?**

Shareholders will launch withhold-vote campaigns	32%
There will be no fallout	15%
They will not be re-nominated	10%
Other	4%
I don't know	44%

## FIGURE 31

**During the last 12 months, your risk as a director has:**

	Increased	Stayed the Same	Decreased
2008	38%	61%	1%
2007	35%	62%	3%
2006	44%	52%	4%
2005	73%	26%	1%
2004	68%	30%	2%

## FIGURE 32

**Have you turned down a board position because you felt your risk was too great?**

Yes, but not in the last 12 months	23%
Yes, in the past 12 months	10%
No	67%

GIVEN ALL THAT HAS TRANSPIRED IN THE GLOBAL MARKETS, THESE ARE PERILOUS TIMES IN WHICH TO BE A DIRECTOR. AT BEST, MANY COMPANIES WILL BE POISED TO HEAR LESS THAN DESIRABLE ANALYST REPORTS—AT WORST, THEY'LL PREPARE FOR DRASTIC COST CUTTING MEASURES OR FACE LIABILITY FROM SHAREHOLDERS. AND THOUGH THE CURRENT DOWNTURN WILL CREATE POCKETS OF OPPORTUNITIES FOR SOME INDUSTRIES, THE MORE LIKELY SCENARIO WILL BE A SHORTFALL OF DEMAND AND THE NEED TO CUT COSTS AND RAISE CAPITAL, ALL OF WHICH WILL IMPACT EARNINGS IN THE COMING YEAR.

To gain some perspective across the country, we asked board members what they expect the consequences will be for the directors sitting on the boards of companies associated with significant subprime write-downs. Approximately one-third expect shareholders will launch withhold-vote campaigns. One in 10 believe the directors involved will not be renominated. Fifteen percent believe there will be no fallout. Nearly half (44%) admit they simply do not know what the ramifications will be (Figure 30).

## Perceptions of Risk and Director Attrition

For the fifth year in a row, a significant number of directors say their risk has increased over the prior 12 months, but most feel their risk has remained the same (Figure 31). It is important to note that the status quo, however, is still elevated relative to previous years, and that furthermore, while a smaller percentage indicated they felt risk increased in 2008, this may be partly because higher levels of risk have become the accepted norm in the last five years.

But has the high level of risk put the kind of pressure on directors that makes them want to resign their board seats? Most directors in our survey say no. Only 25% of directors resigned or considered resigning from any of the boards they served on in the year prior to the survey. Among those, 27% say concerns about personal liability influenced their decision-making process. Very few (6%) say they were primarily concerned about their personal reputations. Approximately 15% say they no longer find it fulfilling to be a director. Forty percent say they resigned or considered doing so primarily because of time constraints, rather than risk.

## Effect on Recruitment

The perception of risk has a greater effect on directors who are considering a board seat. One-third of directors in our study (33%) have turned down a board position because they felt their risk was too great. Of those, 10% have done so in the past 12 months while 23% have done so but not in the past 12 months (Figure 32).

THE PROFILE OF BOARDS OF DIRECTORS FROM PUBLICLY TRADED U.S. COMPANIES, PUBLISHED BELOW, IS THE MOST RECENT SNAPSHOT AVAILABLE FROM CORPORATE BOARD MEMBER'S COMPREHENSIVE DATABASE OF DIRECTORS AND OFFICERS SERVING ON BOARDS OF PUBLICLY TRADED COMPANIES LISTED WITH THE NASDAQ OMX GROUP AND NYSE Euronext.

### Number of Directors Per Board

At the end of 2008, directors on U.S. corporate boards totaled 31,118 from 4,611 publicly traded companies. This represents an average of 8.39 directors per board, with boards from larger companies averaging a higher number of directors than those from smaller companies, as shown below.

Revenue size (\$)	Companies	Directors	Average
>\$10B	248	2,894	11.66
1B-10B	1,030	9,890	9.60
500M-1B	492	4,181	8.49
100M-500M	1,185	9,528	8.04
50M-100M	504	3,939	7.81
10M-50M	668	4,892	7.32
<10M or no sales reported	484	3,367	6.95
<b>Entire Database</b>	<b>4,611</b>	<b>38,691</b>	<b>8.39</b>

### Number of Directorships Held

The highest number of directorships held by one individual is 10. The vast majority of directors, 25,684, hold only one board seat. The table below shows the distribution of the number of directorships held by U.S. corporate directors.

No. of directorships	directors
10	1
9	0
8	1
7	3
6	22
5	94
4	292
3	1,155
2	3,866
1	25,684

### Inside Versus Outside Directors\*

U.S. corporate boards had 6,412 inside directors, representing an average of 1.39 inside directors per company, and 32,278 outside directors, representing an average of 7.0 outside directors per company.

Revenue size (\$)	Cos.	Inside	Avg. inside	Outside	Avg. outside
>\$10B	248	324	1.30	2,570	10.36
1B-10B	1,030	1,425	1.38	8,465	8.21
500M-1B	492	700	1.42	3,481	7.07
100M-500M	1,185	1,622	1.36	7,905	6.67
50M-100M	504	736	1.46	3,203	6.35
10M-50M	668	938	1.40	3,954	5.91
<10M or no sales reported	484	667	1.37	2,700	5.57
<b>Entire Database</b>	<b>4,611</b>	<b>6,412</b>	<b>1.39</b>	<b>32,278</b>	<b>7.0</b>

### Inside Versus Outside Chairs\*\*

Out of a total of 4,257 chairmen on U.S. corporate boards, 2,177 (51%) are inside chairmen and 2,080 (49%) are outside chairmen. These ratios hold steady among revenue size categories, as shown below.

Revenue size (\$)	Companies	Inside chair	Outside chair
>\$10B	241	166	75
1B-10B	988	578	410
500M-1B	469	244	225
100M-500M	1,100	535	565
50M-100M	453	210	243
10M-50M	591	260	331
<10M or no sales reported	415	184	231
<b>Entire Database</b>	<b>4,257</b>	<b>2,177</b>	<b>2,080</b>

### Gender of Directors

There are 3,472 seats on U.S. boards occupied by women, averaging 0.75 per company. Larger company boards have a significantly higher representation of women compared with smaller companies.

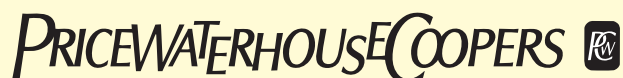
Revenue size (\$)	Companies	Female directors	Average per co.
>\$10B	248	498	2.0
1B-10B	1,030	1,177	1.14
500M-1B	492	366	0.74
100M-500M	1,185	672	0.56
50M-100M	504	269	0.53
10M-50M	668	304	0.45
<10M or no sales reported	484	186	0.38
<b>Entire Database</b>	<b>4,611</b>	<b>3,472</b>	<b>0.75</b>

\*Retired directors are considered outside

\*\*At the time of this report, 354 companies did not report a chairman

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