

Themes for directors in the current environment

As the economy recovers, directors are looking for ways to help their companies prosper, while meeting the challenges that remain. You also are doing so in an environment of intense scrutiny. Whether your company is in the spotlight or not, what can you do to respond to these realities in our complex world?

Revisit incentives and compensation practices. Be aware that shareholders, regulators, policymakers, employees, and the broader public are watching. Understand that this focus almost obliges directors to be prepared to explain how the board determines compensation packages and why the compensation is appropriate. Through discussions with management, make sure you're satisfied that incentive packages don't encourage employees to take risks that are inconsistent with the long-term interests of the company.

Strengthen relationships with shareholders and other stakeholders.

We are in an era of rising shareholder power. With say on pay and proxy access increasingly likely, there are new imperatives to communicate with shareholders—both to hear their concerns and to ensure the company is sharing its views on issues. Understand how management is handling this complex relationship, and consider the need for direct board involvement in certain communications.

Understand also the growing role of government and the new areas of emphasis for regulators. As government involvement intensifies, realize your company may feel the effect, even if you haven't received direct assistance from Washington. Recognize the increase in enforcement activities around the world—whether related to corruption, antitrust, financial reporting, or tax. Understand regulators' views on how your company is doing, and encourage management to build positive relationships. (See a description of the CAMELS scorecard in Appendix B for an example of how regulators evaluate certain businesses.)

Solicit input from outside advisors. The complexity of issues and the often-conflicting demands make navigating through especially challenging. Draw on the perspectives of objective advisors to help you form your view of how best to proceed.

Strive for transparency. There are increasing demands for information about company and board activities, running the gamut from compensation practices to risk management and from director qualifications to the impact of the company's activities on the environment. Check that the information management is providing is clear, relevant, and consistent with boardroom discussions about the company's operations and prospects.