CORPORATE
BOARD MEMBER®

2009 SPECIAL SUPPLEMENT

WHAT DIRECTORS THINK 2009

The *Corporate Board Member*/PricewaterhouseCoopers Survey

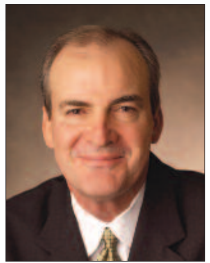
INTRODUCTION

Dear Corporate Director,

In our eighth annual survey of corporate board members, we confirmed that even in the face of enormous challenges, U.S. public company directors are a resilient breed. With all the issues that are swirling in the wake of a tumultuous economic recession, board members we surveyed say that although the present outlook is far from rosy, they are confident in their management and oversight capabilities. In fact, far from shirking their roles, they say they are ready to increase both time and focus to address the important matters at hand.

Corporate Board Member and PricewaterhouseCoopers LLP are pleased to present the following report that features the comprehensive findings of this year's eighth annual What Directors Think study, along with relevant historical analysis and commentary. Each year we undertake this project because we believe the results help define the changing dynamics in today's boardrooms and will assist directors in understanding their most difficult challenges and concerns.

A total of 1,021 corporate directors responded to the 2009 survey, which is designed 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 is brought to you as a companion to *Corporate Board Member* magazine's fourth-quarter editorial coverage. Once again this year, we would like to thank the many directors who participated in the survey and shared their opinions and insights for this critical annual study. We hope the results help engage lively discourse among your company's directors and management in the months ahead.



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PROFILE OF U.S. CORPORATE BOARDS

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EXECUTIVE SUMMARY
RAMPING UP RISK MANAGEMENT

According to the 2009 *Corporate Board Member*/PricewaterhouseCoopers LLP What Directors Think study, the vast majority of corporate boards are looking to step up risk management and strategic planning to work through the economic challenges ahead.

Overview

During the last 12 months, boards of directors found themselves on the front lines dealing with the sharp fall of the financial markets, near-frozen credit markets, and the recessionary challenges that followed. In one short year, it seemed, the world had turned upside down. These late 2008 events, followed by the corresponding public outcry over the need to curb executive pay and increase the quality of risk management, spawned numerous government proposals for increased market regulation and fueled the fire of those who were eager to recoup losses and hold corporate boards accountable.

With these issues at the fore, there is no question 2009 has forced all corporate boards to reexamine their risk management philosophy and decision-making processes to ensure fiduciary duties are being met. Some boards have taken a preemptive move against further shareholder ire by voluntarily making changes in executive compensation policies or taking a more conservative approach to risk. At the same time, concentrating on defensive measures has made it difficult for many companies to focus on strategic planning, innovation, and growth—forward-thinking factors needed to fuel economic recovery and regenerate shareholder value. Finally, as if taking a hard internal look isn't difficult enough, boards have to be ready to respond to tough questions from shareholders, customers, the media, and in some cases, the government.

In the end, one foundational point remains clear: Sound risk management is an intrinsic part of good governance and, furthermore, the buck stops with the board. Stepping up to the plate and asking the right questions about risk versus reward is still the best way to ensure prudent corporate governance and to fulfill the responsibility every director owes the shareholders he or she represents.

What Directors Think: 2009

To analyze these emerging issues within U.S. corporate governance, *Corporate Board Member* and PricewaterhouseCoopers LLP partnered again this year to conduct the 2009 What Directors Think study, which measures directors' opinions on a wide scope of board topics and concerns. More than 1,000 directors participated in this year's study, creating a rich body of data to analyze and share among the corporate community.

Of primary interest from the 2009 study are the following:

- Directors perceive their personal risk has increased and they recognize the need for more focus on risk management within the boardroom.
- Directors want to devote more time to strategic planning.
- Shareholders are becoming increasingly active and directors increasingly are willing to communicate with them.
- Compensation issues are challenging, but directors generally believe they are managing compensation in a sound manner within their own companies.
- Directors expect to see more regulation and litigation in the months to come.
- Succession planning continues to be an area where improvement is needed.

Managing risk

Chief among the issues about which directors feel most passionate is the increased onus to manage risk, and not surprisingly, 59% cite "unknown risks" in response to the question of what keeps them up at night. Seventy-one percent of directors expect risk of regulatory investigation to rise over the next two years, which is to be expected, given the proposals and statements released from the SEC in the wake of the economic downturn. Likewise, 65% expect the risk from plaintiffs' bar litigation to increase. The risk of being a director is apparent as well: 69% of board members say they believe their risk as a director has increased during the last 12 months—an enormous jump from the 38% who answered affirmatively to this question in 2008.

Overall, however, directors are cautiously optimistic about their ability to manage the scope of risk: 88% of board members believe they adequately monitor corporate risk and nearly as many agree they are receiving adequate information on risk. However, more than two-thirds would like to spend more time discussing it as a board. Three-fourths don't see the need for a separate risk committee, preferring to managing these issues within the scope of the full board.

"Every year when the survey results are announced, we stress the importance of the key foundational duties of a board. First is selecting and retaining the right CEO/management team and

second is the responsibility of overseeing risk management, particularly catastrophic risk," says TK Kerstetter, president and CEO of *Corporate Board Member*. "Even a board with a great corporate governance structure will be challenged this year to monitor the risk levels of their organization, especially if they have global operations."

Catherine Bromilow, a partner in PricewaterhouseCoopers' Corporate Governance Group, says boards' heightened awareness on risk will be necessary to respond to both investors' and the government's concerns. "Directors' focus on risk management is particularly timely, given our expectation that companies will have to provide new disclosures about their boards' risk oversight in upcoming proxy statements."

The board's ability to know when to step in and take action is one of the keys to effective risk management, and each year the survey asks directors which items they would rate as red flags for additional involvement. In 2009, directors rated the following as the top five red flags:

- having a restatement of earnings
- missing strategic performance goals
- having multiple whistle-blower incidents
- experiencing a poor customer service record
- undergoing funding challenges

Executive compensation challenges

One of the primary challenges in the current environment is managing executive compensation. Interestingly, we found a slight disconnect between various responses when we posed several different questions to directors about executive compensation.

Sixty percent of directors, for example, concede U.S. companies in general are having difficulty controlling CEO pay levels, and many agree this is a challenging area. In fact, 44% felt serving on the compensation committee and determining CEO compensation were among the most difficult director responsibilities, and 37% agreed they'd like more time to address the issue in board meetings. Yet, despite the challenges, they are not looking to delegate or relinquish this task: 76% of directors say the responsibility for setting policy and approving executive compensation should remain within the purview of the board of directors.

Interestingly, despite much public attention, compensation is not the issue rated highest in priority for most directors. In fact, after profitability and shareholder value, executive compensation rated fifth on a list of six key areas to which directors should pay most attention. Most importantly, 76% believe their own compensation committees are effectively managing CEO compensation.

Strategic planning

Alongside risk management, directors also demonstrate a desire to devote more time to strategic planning—a finding that has consistently increased each year since 2004. This year, 68% of directors say they would like their board to devote more time to strategic planning, up from 66% who said so in 2008, and 56% in 2006.

Financial reporting

The study shows financial reporting is another area of ongoing concern, especially in a time when accounting rules and disclosures have become more complex. As a result of the economic recession, 35% of directors say the likelihood of fraud has increased, and 47% are concerned about the ability of users to understand financial statements. Meanwhile, nearly two-thirds of directors say the current environment has fostered more second-guessing over company disclosures on the part of regulators, lawyers, and others. Interestingly, nearly one in four directors believes that the use of historical cost, along with fair value measures, has made financial reporting less relevant.

Coming of age in 2009

In many ways, 2009 is the year numerous companies underwent a reality check—understanding that in the blink of an eye, financial markets can crumble, corporate giants can collapse, and conventional wisdom can be disaccredited. Furthermore, directors are keenly aware that the government and shareholders are waiting to pounce if governance practices are anything less than prudent and ethical. Once again, in the face of a difficult and challenging year, the bar has been raised on good standards of corporate governance and directors are striving to meet those expectations.

CORPORATE GOVERNANCE CHALLENGES

FIGURE 1

What steps have been taken in response to economic challenges at your company?

Reducing staff levels	**72%**
Cutting/deferring capital expenditures	**62%**
Using the opportunity to search for good acquisitions	**52%**
Divesting of or closing units/business lines	**34%**
Postponing planned expansion	**30%**
Recruiting high-quality staff from troubled companies	**28%**
Eliminating/reducing dividends	**19%**

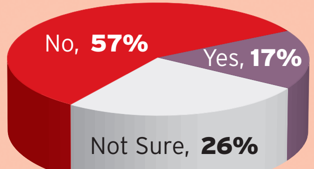
FIGURE 2

How would you like your board to allocate time for the following:

	More	Same
Strategic planning	**68%**	**32%**
Discussing the impact of economic conditions	**60%**	**40%**
Succession planning	**53%**	**47%**

FIGURE 3

Has the economic crisis strained the relationship between the board and management?



Today, corporate directors are facing some of the most difficult challenges experienced by U.S. companies in decades. The severity of the economic recession, the repercussions of the government financial bailout, and the resulting highly charged political landscape have all converged to make this a demanding time to serve as a public company director.

The economy

Directors surveyed for the 2009 What Directors Think research shared the actions their companies have been taking in response to the economic challenges at hand. Cutting expenses was the most prevalent response: 72% say they are reducing staff levels and 62% say they are cutting or deferring capital expenditures (Figure 1). On a more positive front, only about a third of directors report postponing planned expansion or divesting or closing business units. Roughly half the directors say they are using the economic situation as an opportunity to look for good acquisitions. Overall, 60% of directors think boards need to devote more time to discussing the impact of the economic situation compared to the past (Figure 2).

Another optimistic finding shows that despite the turmoil in the markets and economy, more than half the directors surveyed do not feel these events have placed a strain on the relationship between the board and management (Figure 3). This is a positive finding, given the need for boards and managements to overcome obstacles and to work in tandem to develop successful strategies for future growth and stabilization. A primary challenge for boards will be increased regulatory oversight, which nine out of 10 directors agree will occur as a result of the economic downturn (Figure 4).

In general, the recession and the subsequent tightening of the credit markets has had a significant effect on U.S. companies' ability to accomplish their strategic objectives. Sixty-one percent of directors say a lack of financing has created a constraint on their ability to carry out their strategic plan. And while 64% say they feel at least somewhat comfortable that their company could access alternate financing if traditional funding sources were no longer available, more than a quarter (27%) say they are not comfortable that would be the case.

Strategic planning and leadership succession

As this survey has consistently shown, directors desire more time for strategic planning to step back and consider decisions that impact the company's long-term growth and viability. This year, 68% of directors want to have more time and focus on strategic planning—the highest percentage reported in the eight years of this survey. Another 32% say their strategic planning will remain at the same level of focus.

A related area on which boards consistently realize they need to spend more time is succession planning. This year, however, the need appears to be even more acute, with 53% of directors saying they would like to devote more time and focus to succession planning—a significant increase from the 41% who answered affirmatively to the same question last year.

In part, more time is needed because directors realize what a difficult task it is. Just under half of the board members surveyed (49%) rate themselves as effective at completing a management succession plan, compared to 57% who rated themselves effective four years ago. Moreover, 39% say they are dissatisfied with their current management succession plan (Figure 5). Of those, more than half say it is because their company lacks adequate management talent in the pipeline, while 41% say they are dissatisfied because they need more time for the topic on the board's meeting agenda. In another question aimed at identifying top-of-mind concerns for directors that is tangential to succession planning, a quarter of directors say they are concerned about their current CEO's ability to manage through the vast number of challenges facing the company.

Shareholder rights

Another prime governance challenge this year surrounds the area of shareholder relations and shareholder access to the board. A key issue under current debate concerns a proposed SEC rule that would create greater ability for shareholders to make direct nominations to the board. The momentum for this regulatory change demonstrates that the pendulum may be slowly swinging toward greater rights for shareholders. As a result, boards should be aware of the impact on future director slates.

Two findings from this year's study indicate a sharply growing awareness of the need to be open and attuned to shareholder communications: 82% of directors say all shareholders should have the ability to ask questions of board members at the annual shareholder meeting (Figure 6), compared to 52% who thought so a year ago. Interestingly, though, directors are less willing to put themselves directly on the firing line: Only 56% say board members should answer shareholders' questions at annual meetings. About half think major shareholders should have the ability to communicate with board members during meetings designated for that purpose, yet 58% think shareholders should have the ability to communicate with the board at any time, a striking comparison to the 37% who answered similarly last year.

Rating agencies also influence boards' actions and decisions, and this year, RiskMetrics Group has raised the bar significantly with regard to the impact of their governance ratings. Directors are taking note: 62% say published governance ratings will increase a board member's focus and 45% say positive governance ratings help attract investors. Interestingly, only 30% think such published ratings do anything to materially alter the company's stock value.

We asked directors what they thought would likely happen if the SEC is successful with its proposal on easing proxy access for shareholder-nominated directors, and while most are unsure of the specific outcome, nearly a quarter think it would have a negative impact on the collegiality and functionality of the board if shareholder-nominated directors were elected. No matter what happens, the rising influence of shareholders will be a force to reckon with, as 37% of directors say institutional shareholders are the group that influences boards the most.

FIGURE 4

Do you agree with the following, regarding the implications of the economic crisis:

	Agree
There will be a considerable amount of new regulation	**90%**
Shareholders will have increasing influence	**64%**
Companies receiving economic assistance will be pressured to adopt government-imposed policies	**54%**
Government control of any level could not have prevented the severity of our economic crisis	**45%**

FIGURE 5

Are you satisfied with your company's management succession plan?

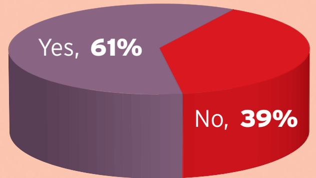


FIGURE 6

Do you agree with the following, regarding shareholder communication:

	Agree
All shareholders should have the ability to ask questions of board members at the shareholders' annual meeting	**82%**
Shareholders should have the ability to communicate with the board at any time	**58%**
Board members should directly answer shareholders' questions at annual meetings	**56%**
Certain (major) shareholders should have the ability to communicate with board members during meetings designated for that purpose	**50%**

PART TWO

MANAGING CORPORATE RISK

FIGURE 7

As a director, what keeps you up at night?

Unknown risks.......................... **59%**

Ability of the CEO to manage through the current challenges.. **25%**

Personal liability........................ **13%**

Unacceptable business practices coming to light.......................... **12%**

Possibility of fraud...................... **9%**

Possibility of need to declare bankruptcy................................. **4%**

FIGURE 8

Other than profitability and shareholder value, to what areas of responsibility should directors pay the most attention?
(ranked by importance)

1. Risk management
2. Capitalize on growth opportunities
3. Development of the company's human capital
4. Ethical culture
5. Executive compensation
6. Regulatory compliance

FIGURE 9

Which of the following duties would you characterize as difficult:

Ensuring the company's strategy is appropriate.............. **64%**

Serving on the audit committee............................... **52%**

Ensuring the company's risk appetite is appropriate.............. **52%**

Determining CEO compensation.......................... **44%**

Serving on the compensation committee.......... **44%**

Understanding the company's marketplace............. **25%**

For years, corporate directors have been asked to raise the bar on risk oversight. Once considered the territory of internal auditors or general counsel, setting policies on the oversight of risk for the entire enterprise is now widely accepted as the purview and responsibility of the full board. If there is one lesson learned in recent years, it is that unknown or underestimated risks can bring a company to its knees.

The current economic situation and the scrutiny on board responsibility has brought risk analysis into razor-sharp focus. Directors, in fact, say the number one thing that keeps them up at night are "unknown risks" (Figure 7), and aside from profitability and shareholder value, they point to risk management as the primary area to which they should pay the most attention (Figure 8).

Each year, directors have noted their desire to increase the amount of time spent on risk management, and this year is no exception. Sixty-six percent of board members affirm they would like to spend more time and focus on risk management compared to the past, a number that is up sharply from just one year ago, when only 34% said they wanted to increase focus on risk management. Another 34% this year indicated their focus on risk management would remain the same.

Accomplishing the task

The road to managing risk has unquestionably gotten bumpier in the last 12 months. Out of a list of several functions performed by the board, ensuring the company's risk appetite is appropriate and ensuring the company's strategy is appropriate tied as the second most difficult tasks (Figure 9). Third in line for difficulty is serving on the audit committee, say board members, a function that obviously entails a great deal of the board's overall risk management duties.

And how do directors rate themselves at accomplishing good risk management? Our results show directors are mostly confident they are doing a good job, though there is room for improvement, especially when compared to other functions. When ranking the relative effectiveness of a list of board duties, directors rated their ability to monitor a risk management plan to mitigate corporate exposures sixth out of a list of seven items (Figure 10), with 50% saying they are effective. But when the survey focused more narrowly on directors' assessments of their risk management objectives, 88% of directors affirmed they adequately meet their responsibilities for monitoring the company's multitude of risks (Figure 11).

Directors may be feeling relatively secure they are making good risk management decisions because they are receiving appropriate resources to help them with this task. More than eight out of 10 directors say they receive adequate information on risk—including 45% who say that information has shown improvement over what was available in the past. And while 17% say the information they currently receive is not adequate, most of those directors indicated management is working to address that deficiency.

The increasing focus on risk management throughout corporate America has likely influenced some boards to create a committee dedicated to risk. While governance experts have mixed opinions on whether this approach brings about more effective risk management, one-quarter of directors surveyed believe a risk committee should be added to their board; 15% already have such a committee. This finding demonstrates an increase from our 2008 survey, when only 10% of boards had formalized a separate risk committee and just 8% felt such a committee should be added.

Risk issues—areas of concern

A perennial source of risk for corporations are lawsuits stemming from shareholder disputes. In times of stock market volatility, or when there are high numbers of bankruptcies, job layoffs, and other events that arise from dire economic circumstances, the tension over the likely upswing in lawsuits is ever present. Sixty-four percent of the directors we surveyed believe shareholders will continue to gain more influence, and 65% say they expect the risk of shareholder litigation to rise over the next two years; 31% believe it will remain unchanged.

Likewise, the call to ramp up regulatory oversight by the SEC, state and federal agencies, and other watchdog groups has created additional board concern. As mentioned in an earlier section, 90% of directors believe the current conditions will result in considerable new regulation. Accordingly, 71% of directors say they expect the risk of regulatory investigations and resulting legal action to increase over the next two years; another 27% believe it will remain the same (Figure 12).

In addition, more than half of directors (55%) in early 2009 were concerned about the level of asset impairment companies had been recording after changes in market value caused significant declines in recorded asset values. Other areas of concern, though lesser in response rate, include worries over the possibility of fraud, bankruptcy, leadership shortfalls, and unacceptable business practices coming to light.

FIGURE 10

Directors who characterized their board as effective in the following duties:

Duty	%
The audit committee's ability to monitor accurate financial reporting	**94%**
The board's ability to challenge management when appropriate	**85%**
The board's ability to adopt a meaningful ethics policy	**79%**
Compensation committee's ability to properly manage CEO compensation	**76%**
The board's ability to create an agenda that best uses the board's limited time	**67%**
The board's ability to monitor a risk management plan to mitigate corporate exposures	**50%**
The board's ability to complete a management succession plan	**49%**

FIGURE 11

Can board members meet their responsibilities of monitoring the company's multitude of risks?

Yes, **88%**

No, **12%**

FIGURE 12

General views regarding the risk of regulatory investigation/action over the next two years:

View	%
Risk will increase	**71%**
Risk will remain unchanged	**27%**
Risk will decrease	**1%**
I don't know	**1%**

EXECUTIVE COMPENSATION

FIGURE 13
Would you like the board to focus more on executive compensation than in the past?

Yes, more time and focus........... **37%**
No change, it is already a major focus........................... **44%**
No change expected.................. **19%**

FIGURE 14
Will companies that are not directly participating in government relief programs also feel the effect of the government's increased focus in their compensation discussions?

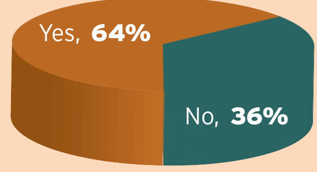
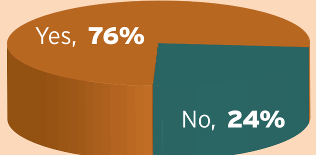


FIGURE 15
Should executive compensation decisions be left to the board of directors?



No single issue is currently receiving greater attention than that of executive compensation. In the wake of massive TARP bailouts and other government-sponsored rescues, politicians, shareholders, and the media have aimed a spotlight on corporate boards, asking them to justify compensation packages and benefits awarded to top executives, especially in a year offering up flat or negative performance for many companies.

In response to this tidal wave of concern, most directors surveyed say they want to focus proactively on compensation issues. Thirty-seven percent say they would like their board to devote more time to executive compensation; another 44% say it is already a major focus (Figure 13). They also recognize how pervasive the issue is: Nearly two-thirds agree that even boards of companies that did not participate in a government relief program will feel the spillover effect of these dynamics in their compensation discussions (Figure 14).

Government intervention

One of the most controversial aspects of the executive compensation debate pertains to the role of the government in legislating compensation practices. While public outcry for such reforms has been loud throughout the year, overwhelmingly, directors believe decisions pertaining to executive compensation should remain the sole responsibility of the board (Figure 15), and less than 3% think the government should apply further limitations to compensation (Figure 16). And though far from turning a deaf ear to the problem—60% concede that, in general, U.S. companies are having trouble controlling CEO pay levels (Figure 17)—they believe they are handling the issue responsibly within their own companies. Seventy-six percent responded that their own compensation committees are effective at properly managing CEO compensation. This finding suggests that, by and large, public company boards believe they have designed compensation packages that are fair and appropriately award their CEOs for performance.

Moreover, many directors believe there will be negative consequences to the government's increased focus on compensation. More than half think it will be difficult for companies to retain the best leaders if they cannot pay market value for their talent—leadership they will likely need in order to cope with what many predict will be a slow and modest recovery. And more than a third (35%) believe setting executive compensation limitations will make it increasingly difficult to recruit the best leaders for the future.

Managing compensation oversight

In the larger sense, while directors fully realize the need to focus on the issue of executive compensation in the current environment, they do not rate it as their top concern. When asked on which issue directors should be most focused after profitability and shareholder value, executive compensation ranked fifth out of six possible responses. Risk management was by far a higher area of importance, followed by growth and human capital development.

Yet directors admit that compensation is a complex matter. When asked to rate the level of difficultly for the responsibility for setting CEO pay, 44% say determining executive pay levels is a difficult task; likewise, 44% rate serving on the compensation committee as a difficult responsibility.

Additional compensation issues

In addition to overarching policy issues related to compensation, many companies are in the throes of deciding what to do about underwater stock options, as well as making policy decisions on travel and perquisites.

Given the performance of the stock market, deciding how to treat options that are underwater by significant amounts has been a challenge for many compensation committees in 2009. By far the most widespread response has been to take no action at all—60% of those boards whose companies had granted options that were underwater had opted not to exchange the equity at the time the survey was given. Twenty-five percent say they are making additional grants of equity to selected staff, and another 28% had not decided what to do. Only a handful of directors said their companies were exchanging underwater options for those "at the money," for full-value shares, or for cash (Figure 18).

Finally, the survey asked whether certain benefits and perquisites would be affected if boards were required to institute a restrictive executive luxury/travel policy. The majority of directors do not think such policies would hinder their companies' ability to reward the best performers, act as an obstacle to get prudent board education, nor cause management teams to be significantly less productive with their time.

FIGURE 16

As a result of increased government focus, do you think it will be difficult to retain the best leaders if companies cannot pay market value for their talent?

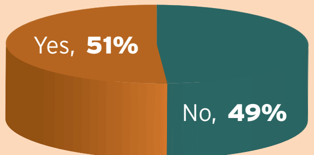


FIGURE 17

In general, do you believe U.S. company boards are having trouble controlling CEO compensation levels?

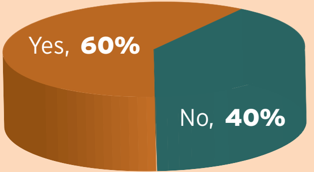


FIGURE 18

Given the performance of the stock market, how is your board addressing options that are underwater by significant amounts?

Decided not to exchange at all	**60%**
Have not decided yet	**28%**
Making additional grants to selected staff	**25%**
Exchanging them for "at the money" options	**3%**
Exchanging them for full-value shares	**3%**
Exchanging them for cash	**1%**

BOARD COMPOSITION AND STRUCTURE

FIGURE 19
Typically, how long are your full-board meetings?

2 hours or less	**2%**
2-4 hours	**20%**
4-6 hours	**33%**
6-8 hours	**25%**
8-10 hours	**12%**
More than 10 hours	**8%**

FIGURE 20
How effective is your board at creating an agenda that best uses the board's limited time?

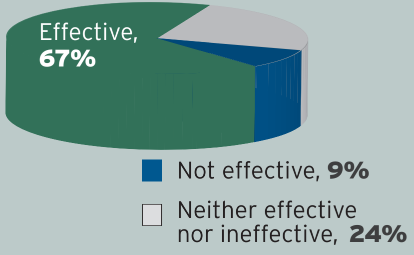


FIGURE 21
Who has final responsibility for creating your board meeting agenda?

CEO	**52%**
Non-executive chairperson	**28%**
Lead director	**11%**
General counsel/ corporate secretary	**4%**
Other	**5%**

In an effort to meet the needs of the changing business landscape, the structure of boards continues to evolve as well. Today's boards are expanding their agendas and stretching their human capital capabilities to better reflect skills that are needed to respond to the technological, demographic, and geographic culture that surrounds them.

The average number of total hours spent on board matters rose significantly after the passage of the Sarbanes-Oxley Act in 2002, and since then, the average length of time has remained at or near 20 hours per month. The average length of board meetings, however, has edged upward over the last six years. Today, a third of directors report average meeting lengths of 4-6 hours; another 25% say their board meetings last 6-8 hours (Figure 19). By comparison, just seven years ago, 47% of directors reported typical meeting lengths of 2 hours or less; today that group represents less than 2%.

The survey results are similar for time spent on committee meetings, where the general trend since 2003 has been a shift toward longer audit, compensation, and nominating committee meetings. Of note, in 2009, the percentage of directors who say compensation committee meetings usually run 2-4 hours nearly matched the percentage who say audit committee meetings generally run the same length. With ongoing shareholder scrutiny on compensation and expected further regulations in this area, we expect the amount of time spent in compensation committees to remain relatively high.

Arguably, an even more important finding relates to directors' perceptions of whether their time is put to good use. Survey results indicate that these time allotments are in line with what is needed, as 92% of directors surveyed report they have sufficient meeting time to comply with their duties as a director. Likewise, 67% acknowledge the board is effective at creating an agenda that best uses the board's limited time; only 9% said they were not effective at that task (Figure 20).

Board scope

The survey also tracks the continual evolution of the board's scope and agenda process to learn more about how boardroom dynamics are changing. In 2009, 52% of directors report that the CEO has the final responsibility for creating the board agenda, 28% say the nonexecutive chair has that responsibility, and 11% say it is created by the lead director (Figure 21). Compared to previous years, these statistics represent a trend that shows the balance of power shifting slightly more toward nonexecutive chairs and lead directors compared to just four years ago, when 74% of directors said the CEO had final agenda approval, and only 14% and 3% of nonexecutive chairs and lead directors approved final agendas, respectively.

Another issue the survey tracks each year relates to the balance of power between the board and management, in an effort to assess the degree of board independence. When asked if they are effective at standing up and challenging management when appropriate, 85% said yes (Figure 22)—a finding that is consistent with directors' opinions for the past six years of the survey.

Regarding agenda items directors feel are most critical, not surprisingly, discussions on the impact of economic conditions skyrocketed in priority this year, as 60% of board members (compared to only 31% in 2008) agree this topic needs more time and focus. Other critical areas for which directors desire increased time are risk management (66% compared to 34% in 2008); compliance and regulatory issues (32% compared to 6%); meeting managers from key areas of the company (45% compared to 27%); discussing the industry (48% compared to 32%); and succession planning (53% compared to 41%). One new area measured this year that also garnered a high response is the need to spend time discussing how to capitalize on growth opportunities, which was identified by 53% of directors.

Composition and recruitment

Along with external influences on boards' agendas, the changing face of board composition is creating new dynamics in the boardroom. Over the past several years, empirical studies have shown that diverse boards are positively correlated with strong corporate performance, and as such, a wider understanding of the benefits of diversity is beginning to take root. At the same time, the need for boards to become more adept at understanding changing technologies and increasingly complex legal and financial matters has driven boards to seek members who bring these additional skills and qualifications to their ranks.

Collectively, these issues, along with more stringent standards on director independence, have made board recruitment a challenging proposition. As a result, the question of whether there are enough qualified board candidates is often debated. Directors surveyed are somewhat split on whether there are adequate pools of potential qualified candidates, with 56% saying there is a shortage of qualified directors; 44% say that is not the case. They are also divided on whether they would consider bringing on a candidate with no previous board experience: 49% say they would, and 51% say they would not consider such a candidate (Figure 23).

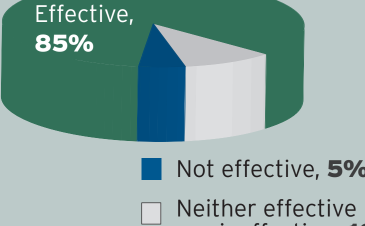
When we drill down into the survey results to inventory particular board member skill sets and attributes, we note that, in general, boards today appear to be more capable of attracting appropriate candidates. Generally, directors say the level of difficulty in adding members with particular skills and attributes has decreased since 2003, particularly in the area of finding directors with financial and legal expertise as well as those representing gender diversity (Figure 24). Even so, finding director candidates with adequate expertise in international business, technology, corporate turnarounds, and those who offer ethnic and gender diversity remain the most challenging areas of board recruitment.

Board evaluations

Finally, each year the survey aims to benchmark how well boards are doing in their responsibility to evaluate themselves as a means for improving board performance. With regard to the outcome of their boards' most recent assessments, nearly half (49%) of those surveyed said that as a result of their evaluations, there was a change in the way information was received prior to or during the meetings, and 46% said a change was made to the way meetings are conducted. Just 19% said a change to board composition occurred as a result of the evaluation.

FIGURE 22

How effective is your board at standing up and challenging management when appropriate?



Not effective, **5%**

Neither effective nor ineffective, **10%**

FIGURE 23

Does your board have any reservations about bringing in a new director who has no previous board experience?

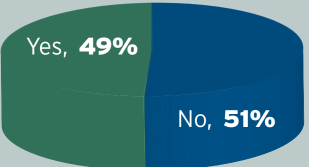


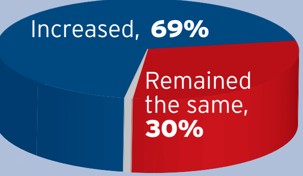
FIGURE 24

Directors who say it is difficult to add board members with the following skill sets/attributes:

Skill set/attribute	%
Ethnic diversity	**57%**
Gender diversity	**50%**
Technology expertise	**45%**
International expertise	**42%**
Marketing expertise	**35%**
Financial expertise	**33%**
Corporate turnaround	**19%**
Public policy expertise	**17%**
Government expertise	**13%**
Legal expertise	**12%**

DIRECTOR LIABILITY OUTLOOK

FIGURE 25
In the last 12 months, do you feel your risk as a director has:



Decreased, **1%**

FIGURE 26
In the past 12 months, have you resigned or thought seriously about resigning from any of the boards you serve?

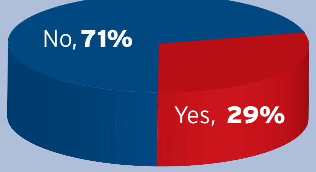


FIGURE 27
Do you believe your directors and officers liability insurance plan will give you adequate coverage for the following elements?

	Yes
Fraud for which you are not responsible	86%
Shareholder suits	82%
Catastrophic loss	68%
Bankruptcy	66%

In this year's survey, the percentage of directors who perceive their liability has increased during the previous year reached the highest level noted since 2006, and it is nearly twice as high as that measured in 2007.

Sixty-nine percent of directors report they believe their risk has increased (for the 12 months prior to completing the survey in the spring of 2009) (Figure 25). By comparison, in 2007, only 35% of directors said they thought their risk had increased.

Yet even with this spike in risk perception, the majority of directors (71%) say they have not resigned or thought about resigning from any of their current board seats (Figure 26). Of those who did, only 19% say it was due to concerns around personal liability; 37% did so primarily because of time constraints, 18% say they no longer found it fulfilling, and 7% had concerns about their personal reputation.

In a related question, while 46% of directors say they have turned down a board position because the risk was too great, only 11% have done so within the prior 12 months.

For the 87% of directors who say they don't lose sleep at night because of personal liability, one reason likely relates to the fact that they know they have solid directors and officers (D&O) liability insurance coverage. Referred to as Side-A coverage, these policies are constructed to protect board members when they make decisions that they believe in good faith to be in the best interest of their company. The vast majority of directors surveyed (86%) say they have an adequate D&O liability plan to cover them for fraud for which they are not responsible, and 82% say they are covered by their D&O insurance for shareholder suits. Slightly more than two-thirds (68%) say their plan covers them for catastrophic loss on the part of the company, and 66% believe they are protected in the event of bankruptcy (Figure 27).

In conclusion, even though directors are pragmatic about the fact that risk has increased for corporate boards, they understand that risk is an intrinsic part of the corporate environment. Luckily for U.S. corporations, most directors embrace their continuing role on the board, so long as adequate insurance and indemnity protections are in place to protect them.

PROFILE OF U.S. CORPORATE BOARDS

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 NYSE Euronext, NYSE Alternext U.S., and The NASDAQ OMX Group Inc. stock exchanges.

Number of Directors Per Board

At the end of 2009, directors on U.S. corporate boards totaled 35,843 from 4,289 publicly traded companies. This represents an average of 8.36 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	253	2,878	11.38
1B-10B	1,038	9,820	9.46
500M-1B	477	3,998	8.38
100M-500M	1,119	8,877	7.93
50M-100M	468	3,648	7.79
10M-50M	587	4,252	7.24
<10M or no sales reported	347	2,370	6.83
Entire Database	**4,289**	**35,843**	**8.36**

Number of Directorships Held

The highest number of directorships held by one individual is seven. The vast majority of directors, 24,144 (83%) 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
7	2
6	13
5	73
4	254
3	1,020
2	3,583
1	24,144
Total Unique Directors	**29,089**

Inside Versus Outside Directors*

U.S. corporate boards had 6,029 inside directors, representing an average of 1.41 inside directors per company, and 32,278 outside directors, representing an average of 6.95 outside directors per company.

Revenue size ($)	Cos.	Inside	Avg. inside	Outside	Avg. outside
>$10B	253	344	1.36	2,534	10.02
1B-10B	1,038	1,440	1.39	8,380	8.07
500M-1B	477	674	1.41	3,324	6.97
100M-500M	1,119	1,577	1.41	7,300	6.52
50M-100M	468	673	1.44	2,975	6.36
10M-50M	587	822	1.40	3,430	5.84
<10M or no sales reported	347	499	1.44	1,871	5.39
Entire Database	**4,289**	**6,029**	**1.41**	**29,814**	**6.95**

Inside Versus Outside Chairs**

Out of a total of 4,016 chairmen on U.S. corporate boards, 2,115 (52.66%) are inside chairmen and 1,901 (47.34%) are outside chairs. These ratios hold steady among revenue size categories except for the largest companies, as shown below.

Revenue size ($)	Companies	Inside chair	%	Outside chair	%
>$10B	248	181	72.98%	67	27.02%
1B-10B	1,004	595	59.26%	409	40.74%
500M-1B	454	243	53.52%	211	46.48%
100M-500M	1,058	529	50.00%	529	50.00%
50M-100M	429	200	46.62%	229	53.38%
10M-50M	515	215	41.75%	300	58.25%
<10M or no sales reported	308	152	49.35%	156	50.65%
Entire Database	4,016	2,115	52.66%	1,901	47.34%

Gender of Directors

There are 3,342 seats on U.S. boards occupied by women, averaging 0.78 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	253	479	1.89
1B-10B	1,038	1,183	1.14
500M-1B	477	349	0.73
100M-500M	1,119	653	0.58
50M-100M	468	267	0.57
10M-50M	587	291	0.50
<10M or no sales reported	347	120	0.35
Entire Database	**4,289**	**3,342*** **	**0.78**

*Retired directors are considered outside

**At the time of this report, 273 companies did not report a chairman

***Women hold 9.32% of all public company board seats

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