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ARE YOU A VISIONARY DIRECTOR?

A CHECKLIST FOR BUILDING SHAREHOLDER VALUE

This tool enables directors of corporate boards to determine how their strategy, culture, risk oversight, executive compensation practices, and earnings guidance practices align with good governance and can support long-term, sustainable success. These best practices provide a foundation for sound analysis and effective communication with stakeholders to foster stronger, more resilient firms. The detailed report is available at cfa.is/visionaryboard.

Quarterly Earnings Practices

A Visionary Board:

- ☐ Does not engage—or allow management to engage—in the quarterly earnings guidance game.
- ☐ Provides support to management that encourages an organization's long-term strategy when management faces short-term shareowner interests.
- ☐ Remains focused on execution of long-term strategy in the face of volatility and short-term pressures.
- ☐ Helps oversee the guidance process, focusing on long-term guidance, especially for directors serving on the audit committee.
- ☐ Listens to quarterly earnings calls and reviews competing firms' communications to investors.
- ☐ Seeks out alternative sources of information about the company beyond that provided by management.
- ☐ Communicates for the long term in order to attract long-term shareowners.

Shareowner Communications

A Visionary Board:

- ☐ Ensures that the company has processes and mechanisms in place to allow investors to share their input with the board.
- ☐ Is willing to meet with investors and listen to their concerns.
- ☐ Fosters a "constant conversation" between the company and key shareowners.
- ☐ Designates the appropriate director to communicate with shareowners.
- ☐ Works with the company to broaden communication opportunities, discussing emerging issues with investors.
- ☐ Understands the concerns of shareowners, employees, customers, and other stakeholders.
- ☐ Considers the input of company critics and works with management to address their legitimate concerns.

Strategic Direction

A Visionary Board:

- ☐ Knows that overseeing, understanding, and monitoring strategy is a continuous process.
- ☐ Is actively involved in the development of corporate strategy and measures progress against strategy at every meeting.
- ☐ Has all the information necessary (including access to outside sources) to make decisions in the interest of shareowners.
- ☐ Recognizes that an effective strategy must have short-, intermediate, and long-term elements.
- ☐ Communicates to investors the board's role in the strategy-setting process.
- ☐ Defers to management for more detailed discussion of strategy execution.
- ☐ Focuses on the quality of a company's operations to ensure they support long-term strategic goals.

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Risk Oversight

A Visionary Board:

- ☐ Understands that the whole board is responsible for risk oversight (with specialization required where necessary).
- ☐ Views risk oversight and risk management as a way to protect the company's assets while also creating long-term value.
- ☐ Understands the company's enterprise risk management (ERM) process and the unique risk facing the company.
- ☐ Treats risk oversight as a constant process and sets the tone that evaluating risk is embedded in the organization's strategy and operations.
- ☐ Clearly explains to investors and stakeholders the process the board uses for risk oversight and the monitoring of strategically important risks.
- ☐ Analyzes the correlations among risks in a complex globalized environment and the ripple effects that a single event may have on multiple risks.
- ☐ Understands the inability to foresee every risk and thus supports a strong crisis management plan.
- ☐ Seeks out information on risk from all sources: shareowners, bondholders, managers, employees, and partners in the supply chain.

Executive Compensation

A Visionary Board:

- ☐ Works to align compensation with both long-term performance and company strategy.
- ☐ Understands the risks inherent in compensation structures, particularly those that have equity components, and considers how those risks may have influenced management decision making.
- ☐ Understands the compensation processes and practices throughout the company to ensure the appropriate incentives for performance and risk-taking are being supported.
- ☐ Communicates the compensation philosophy, as well as critical performance parameters and benchmarks, of the executive compensation plans to shareowners.
- ☐ Actively oversees the Compensation Discussion and Analysis (CD&A) process to ensure that the CD&A provides clear, concise information to investors about the compensation processes and practices, as well as the link between pay and performance.[1]
- ☐ Pays particular attention to the legitimate concerns of shareowners.

Culture (Board Culture/ Company Culture)

A Visionary Board:

- ☐ Asks the hard questions and is candid with peers and management.
- ☐ Avoids "going along to get along."
- ☐ Seeks a board culture of accountability.
- ☐ Values and seeks out diversity of opinion on the board.
- ☐ Pays attention to the "soft issues" and understands that these issues reflect the culture of the company.
- ☐ "Walks the floor" of the company and interacts with employees to best understand the culture.
- ☐ Tests a company's commitment to its core philosophy and mission to determine if it "walks the walk."
- ☐ Wants to hear the issues reported to the ethics hotline and understand the procedures for dealing with problems.
- ☐ Cares about the morale of all employees.
- ☐ Is intellectually curious about how the company operates.
- ☐ Has a passion for the company.

1. See the CFA Institute Compensation Discussion and Analysis Template (2011).

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