The Long-term Habits of a Highly Effective Corporate Board

FOCUSING CAPITAL
ON THE LONG TERM

FCLTGlobal is dedicated to rebalancing investment and business decision-making towards the long-term objectives of funding economic growth and creating future savings.

FCLTGlobal is a not-for-profit dedicated to developing practical tools and approaches that encourage long-term behaviors in business and investment decision-making. It takes an active and market-based approach to achieve its goals. By conducting research and convening business leaders, FCLTGlobal develops tools and generates awareness of ways in which a longer-term focus can increase innovation, and create value. FCLTGlobal was founded in 2016 by BlackRock, Canada Pension Plan Investment Board, The Dow Chemical Company, McKinsey & Company, and Tata Sons out of the Focusing Capital on the Long Term initiative. Its membership encompasses asset owners, asset managers and corporations from around the world.

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AUTHORS

Ariel Fromer Babcock
Lead Author

Allen He

Evan Horowitz

Victoria Tellez

Sarah Keohane Williamson

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Executive Summary

It's hard to focus on long-term goals with so many pressing, market-driven demands for quick rewards and quarterly projections. But companies that prioritize long-term needs tend to outperform peers that bow to short-term market pressure, whether you look at revenue growth, profitability, or job creation.

Corporate boards are vital in helping companies maintain a longer-term focus even while executing on shorter-term priorities. Around the world, the typical board member has actually served longer than the typical CEO—7.7 years compared to 6.3—which gives boards a wide perspective on a company's current and future path.[1] And board's unique stature, sitting atop the organization, allows them to shape corporate culture through a mix of encouragement, skepticism, and guidance.

However, boards are not immune to short-term thinking. And even those directors most committed to long-term thinking get a lot of misleading and unproven advice. Despite a substantial body of published work on board best practices and good governance, 47 percent of corporate executives report that their boards are actually an unexpected source of short-term pressure and an impediment to long-term strategic thinking.[2] Directors themselves acknowledge they could do more to help the situation: one survey found that 60 percent of directors agreed they have a responsibility to tackle short-termism at their organizations.[3]

This paper, which crystallizes the collective knowledge and experience of FCLTGlobal's Members and other subject-matter experts, offers two novel contributions: (1) it reassesses some of the common counsel given to directors on issues like overboarding and CEO–chair duality, where the evidence for long-term value creation is weak or contradictory; and (2) it identifies the following proven steps boards can take if they aim to be long-term leaders with a farsighted vision of corporate success.

Spend more time on strategy. Strategic counsel is an area where board members can add tremendous value, with insight drawn from real-world experience and enriched by regular attention to the company's business model, risks, and value-creation proposition.

Ensure that directors have a stake in long-term success. Encouraging board members to purchase and hold company stock through and beyond their tenure helps align their interests with those of long-term investors.

Communicate directly with long-term shareholders. Although they sit outside the organization, long-term shareholders have a real interest in durable, corporate success. Listening to their viewpoint can broaden the perspective of board members, while also turning long-term investors into allies.

Ensure a diverse board. Differing perspectives among board members can unearth new approaches and opportunities. One way to ensure that diverse views are heard is to build a board that includes people from a wide range of demographic backgrounds.

Board members looking to guide their companies toward a prosperous, long-term future can use these findings as a roadmap. And just as important, investors looking to identify companies with a long-term vision can use these results to gauge which boards are well positioned to help avoid short-term shoals.

The long-term habits of a highly effective corporate board

Research from FCLTGlobal and beyond has shown that long-term companies outperform on financial metrics, including revenues, profitability, and stock price. They also fare better on several nonfinancial metrics, including job creation. As a recent study of large public companies in the United States found, from 2001 to 2014 long-term companies cumulatively grew their revenues 47 percent more on average than their shorter-term peers, with less volatility. During the same period, these long-term companies similarly outperformed on measures of economic profit, cumulatively besting peers by 80 percent, with earnings growth that was also 35 percent higher.[4]

Companies seeking the performance advantages that come from long-term thinking should have a ready partner in their corporate board.

Not all well-meaning proposals have real long-term impact.

Several of the most widely prescribed remedies for ailing boards don't seem to improve long-term company performance, according to FCLTGlobal's review of the evidence. We used global data to see which board actions were actually correlated with long-term value creation and found no evidence that these three meaningfully affect returns: overboarding, CEO-chair duality, and tenure.

Arguably among a company's biggest untapped strategic assets, a well-functioning long-term board of directors wields the power to meaningfully influence the purpose, culture, and direction of an organization, setting an appropriate long-term tone for both corporate management and shareholders, as well as ultimately driving long-term value creation by insulating management and the company as a whole from short-term market pressures. Often, however, boards unwittingly push in the other direction, increasing the impact of short-term pressure rather than blunting it. Corporate management teams frequently cite their own board as a primary source of short-term pressure on their organization.[5] Three of every four directors concede that short-term pressure has compromised management's focus on strategic goals.[6]

Given the breadth of board responsibilities, it's understandable that short-term pressures can distract from longer-term needs. Compliance issues and regulatory burdens are a constant matter for attention, as mistakes can leave the company vulnerable to litigation. What's more, activist investors are always looking for missteps and other openings to press their priorities. Not to mention the ever-present possibility of macroeconomic disruption and financial market volatility, which can upend even the best-laid long-term plans.

But directors needn't approach this tension as a trade-off. It is possible to address short-term demands while still working to improve long-term performance. In fact, building a strong board with a committed long-term focus can help insulate companies from some of those short-term concerns. For instance, boards with an established record of long-term leadership will find more allies in a fight against activist shareholders and have more credibility when claiming that a dip in earnings is likely to be short lived.

Building on original research, conversations with key stakeholders, and a review of existing studies, FCLTGlobal has identified a number of actions directors can take to enhance credibility and maximize their impact on the long-term needs of the companies they oversee.

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SPEND MORE TIME ON STRATEGY

Boards with a demonstrated, long-term impact spend nearly twice as much time on high-level issues like strategy, business model, risks, and the company's value-creation proposition, according to research from McKinsey.[7] That link between long-term success and strategic focus is well demonstrated by the Nordic countries, where companies consistently outperform over long horizons and where corporate boards play a particularly robust role, driving strategic decision-making.[8]

Directors agree they need to do better, with 67 percent of directors reporting the need to improve their contribution to the development of strategy.[9] But the hurdles can seem high. Regulatory- and compliance-related tasks often consume significant board attention and eat up large parts of their agendas. A few more cynical experts we spoke with also pointed out that there is really no upside for the board in spending more time on strategy. These people were quick to note that the CEO typically gets the credit if the company's strategy succeeds.

But many shareholders want boards to be more involved in strategy work, a sentiment captured by John Vaske, head, Americas, at Singapore's Temasek: "Boards have to be really immersed in strategy; it can't be at a superficial level. Directors that are long-term have the time and inclination to dig into those strategy-related questions—that's where value-creation happens."

Boards that are serious about optimizing the time they spend on strategy can focus on some of the following areas.

Overboarding doesn't hamper long-term performance.

The possibility that some directors sit on too many boards is a live concern for proxy advisors and some regulators. Glass Lewis's 2019 voting guidelines state: "In our view, an overcommitted director can pose a material risk to a company's shareholders, particularly during periods of crisis."[10] But the academic literature is not so conclusive,[11] and FCLTGlobal's own analysis found no correlation between overboarding and long-term results. This is, in part, because overboarding is extremely rare. We found that fewer than 5 percent of all MSCI ACWI directors serve on three or more public company boards, and the median number of external public company boards MSCI ACWI directors serve on is 1.1. Given this dearth of examples, overboarding seems more like a theoretical quandary than a real-world concern today—and not a major source of pressure on board time.

Meeting materials. Half of board directors report that the agenda alone is a big reason they spend too little time discussing strategy.[12] Too often, compliance-related issues are frontloaded or given disproportionate time, which detracts from meatier discussion. INSEAD professor Stanislav Shekshnia explained in a recent *Harvard Business Review* article that good board chairs are extremely careful with their meeting agendas.[13] By ensuring the agenda includes no more than six items and these items are only topics that are "strategic, material, ripe for decision, and something only the board can handle," good board chairs ensure that time is put to the best possible use. Barclays' chairman, John

McFarlane, emphasizes the importance of setting sound priorities: “I like to have the most important matters for discussion first on the agenda, followed by matters for approval, so that time is not restricted on these items.” Boards that are thoughtful with meeting materials—by forcing concise documents, providing executive summaries, and limiting management presentation time to allow for enough discussion and Q&A—create extra time in their agendas for more meaningful work on strategy-related questions.[14]

Committee delegation. Full-board time at successful long-term companies is precious, and delegating to committees is one way to ensure that multiple issues get addressed in a rigorous way. Global banking and financial services powerhouse HSBC estimates that their directors spend three-quarters of their time on committee work, an approach HSBC believes allows for more candid, small-group conversations. The considered outcome of such conversations can then be brought forward for full-board review. Interestingly, this in-depth focus at the committee level was achieved despite shrinking HSBC’s board to 14 members from the prior 17 (after being as large as 21 members as recently as 2015).[15]

Preparation. More preparation means less time getting up to speed during the meeting and more time for substantive discussion. Some long-term boards also assign mandatory “homework,” in the form of materials to pre-read. Netflix shares an online live memo in advance of board meetings and invites comments and questions upfront.[16] As Joel Posters, head of Investment Stewardship and ESG at Future Fund, puts it: “We’ve seen companies who are successful at this limit the time spent on presentations. Since everyone is presumed to have read materials in preparation, that leaves more time to devote to debate and decision-making.”

Follow-up. High-level meeting minutes that include key decisions, conclusions, and resolutions can make debates feel settled and ensure that items don’t resurface later for repeat discussion. The level of detail needn’t be too granular—no need for a complete rundown of who said what and when—provided the key points and takeaways are clearly summarized. A good company secretary is invaluable in this respect. As Michelle Edkins, managing director and global head of Investment Stewardship at BlackRock, suggests, “A good secretary keeps the board on track with their agendas, documents key progress, and ensures regular follow-up on key items to make sure the board’s decisions are heard and implemented further down the organization.”

Time outside of meetings. Not all strategic work happens during the board meeting. Site visits, competitor product comparisons, ongoing conversations with management and other employees, discussions with external stakeholders like suppliers or customers, and a continuous review of industry analysis can all enrich the strategic insights of board members. McKinsey & Company’s Senior Partner Emeritus and board-practice expert Conor Kehoe has emphasized the importance of this broader strategy immersion, noting that “boards who spend more time on strategy achieve this by spending more time on their board duties overall. … This extra time is spent, in the main, outside formal board and committee meetings.”

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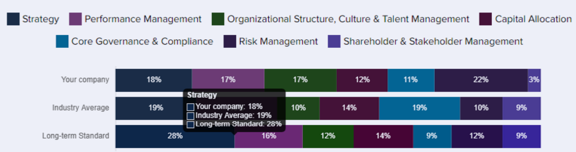
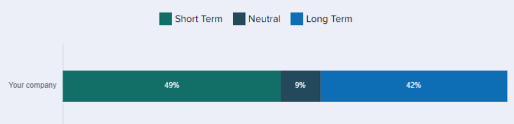
FCLTGlobal's Time Visualization Meter

To see how strategy focused your board really is—and where you may be able to trim fat from your agenda—FCLTGlobal has developed a graphical tool showing how long-term boards allocate their time and how you stack up against your industry peers and successful long-term boards. That way, you can see whether there are opportunities to improve your agenda and intensify your focus on the long term.

Time visualization by Category



Time visualization by Term



ENSURE THAT DIRECTORS HAVE A STAKE IN LONG-TERM SUCCESS

Board members who make meaningful long-term financial investments in the companies they oversee have greater incentive to focus on long-term strategic choices. Having "skin in the game" binds their individual portfolios to the fate of the companies they serve.

The virtue of this "directors as owners" model is clearly exemplified by companies with a significant anchor or family shareholder, as these kinds of owners are strongly motivated to pass a thriving business to their children and grandchildren.[17] Lady Lynn Forester de Rothschild, chair of E.L. Rothschild and director of The Estée Lauder Companies, captures that multigenerational perspective: "They [family-run businesses] are used to planning in terms of generations. This generational planning is the ultimate long-term management horizon. We need to get more traditional directors to start to think of themselves that way and behave like family owners."

Encouraging—or even mandating—that directors buy and hold company stock for extended periods gives them a version of this multigenerational, longer-term view. And there's strong evidence linking director stock ownership to long-term value creation and firm outperformance. One 1998 study of 1,700 US public companies found that larger dollar-value investments by outside directors was linked to (1) better company performance, as measured by three-year growth in operating income, three-year growth in sales, stock returns, and return on equity; and (2) a greater likelihood that poorly performing companies would see disciplinary-type CEO turnover.[18] A follow-up study from 2011 confirmed that the dollar value of director stock ownership is positively related to firm operating performance.[19] And the recently published update to the "Commonsense Principles for Corporate Governance" agrees: "Companies should consider requiring directors to retain a significant portion of their equity compensation for the duration of their tenure to further directors' economic alignment with the long-term performance of the company."[20]

It's vital to emphasize the "hold" part of this equation. If board members are free to sell or hedge company stock at any moment, it could actually stoke short-term behavior by letting boards benefit from unsustainable stock price movements. It is common today to have retention requirements for stock owned by board members; however, 55 percent of retention requirements mandate a holding period that lasts only until the stock ownership guidelines are met.[21] In addition, directors are free to sell stock in excess of the mandated minimum ownership and often do. Indeed, this fear of introducing an excessively short-term perspective to the boardroom has induced some nations, like the United Kingdom, to go so far as to consider directors who own significant amounts of a company's stock (or who represent a significant shareholder) to no longer qualify as independent, reclassifying these directors as insiders.[22]

A relatively straightforward solution with just two criteria is emerging. First, companies would require directors to accumulate—in the open market, over a period of years determined by the company—a proportion or fixed minimum multiple of their cash compensation in stock of the company they serve. Second, directors would be prohibited from selling or hedging all accumulated stock during and for a period of years (again to be determined by the company) beyond their term of service.

Because the stock is locked up (restricted from sale), directors' experience as shareholders will mirror the experience of long-term investors, limiting their attention to short-term changes in stock valuation and volatility.

The fact that the shares will be purchased, rather than granted, gives directors a heightened sense of ownership—rather like the difference between betting with your own money and using house chips. There are other advantages to this requirement that the shares be purchased directly: it makes the plan more palatable to shareholders concerned with excessive director compensation via granted shares, and it ensures the approach works in jurisdictions with regulations against granting shares to directors.

As a further step, this same restriction on selling stock could be applied more broadly, with companies barring directors from selling any company stock they may have acquired over the years beyond just the shares they are required to purchase as part of their board service. Doing so would further align board interests, shareholder interests, and long-term corporate goals, curtailing any incentives to seek personal gains by timing corporate ups and downs.

Some companies have already embraced a "buy and hold" mandate for board members. As a director with one Fortune 500 company we spoke with observed,

"What kind of signal does it send when the very people tasked with shepherding a firm on its path to successful growth sell their shares? As a market participant how could you possibly interpret that action in a positive light? It seems like giving up on our own ability to create future long-term value."

Improved disclosure could also help amplify the impact of a buy-and-hold approach, ensuring not only that board members' ownership interests are aligned with those of long-term shareholders' via stock ownership but also that shareholders know and can fully appreciate the depth of the board's long-term commitment by perusing information about the stock purchases, holdings, and sales by directors.

There are still some risks to this approach, however. Perhaps the biggest is that a mandatory stock purchase program could narrow the pool of potential board members, weeding out those (younger and often more diverse) candidates who can't afford to buy large holdings in the company, as well as retirees who may need more liquidity. Wachtell, Lipton, Rosen & Katz partner Sabastian Niles expressed this concern succinctly: "Imposing a requirement on all directors to buy stock out of their personal wealth to satisfy desire for better shareholder alignment could affect director supply, skewing it to older, wealthier candidates. No one wants to go back to overly narrow pools for directors or creating disincentives to serve." However, in a carefully calibrated plan, the size of the stock purchase requirement can be linked to director compensation levels, which should make it more affordable for all involved.

COMMUNICATE DIRECTLY WITH LONG-TERM SHAREHOLDERS

Board members who engage with long-term shareholders can expand the board's understanding of how their company is perceived by the market, which is invaluable for strategic debates and decisions. According to Sarah Teslik, of strategic communications firm Joele Frank, "Long-term shareholders are like consultants, but free—shareholders have a massive financial stake in their advice being accurate and a big motivation to share that information, but few ask for that input often enough. Smart long-term boards recognize and avail themselves of this valuable resource."

Building relationships with key investors can also help establish mutual trust, which becomes particularly valuable when the company finds itself embroiled in a proxy battle, hostile takeover, or activist attack. Temasek's Vaske emphasizes this point: "Boards in crisis don't seem to ever know anything about shareholders' mind-sets: they constantly seem to be surprised in a proxy battle. Directors need an in-depth perspective on what shareholder constituencies need and want, and that has to happen before you have a problem—engagement is the only way you get there." Consider Unilever, which was able to beat back an unsolicited takeover thanks in part to the fact that 70 percent of its shareholders are long-term investors who have held their stock for more than seven years.[23]

Some companies have embraced the chance to pursue a more direct dialogue with shareholders. In their most recent proxy season review, EY found a big jump in the number of S&P 500 companies saying their directors had engaged with investors over the prior year, from 10 percent in 2015 to 25 percent in 2018.[24] A much larger number of directors recognize the power of talking with investors. In PwC's 2017 survey, 77 percent of directors agreed that direct engagement impacts proxy voting (vs. just 59 percent in 2016).[25] And while US-listed companies remain slower to embrace an open dialogue with shareholders, it is already common practice in Western Europe for nonexecutive directors to meet with shareholders to discuss strategy, governance, executive compensation, risk, and other matters within the board's purview.[26] Many management teams remain wary of face-to-face discussions between directors and shareholders—for several reasons. For one thing, directors may lack the depth of knowledge to answer all questions or the preparation to stay on message. Many managers also worry that such meetings could undermine

Companies can still be long term when the CEO is also board chair.

On this issue, some regulators and activist shareholders seem to have gotten ahead of the evidence. The United Kingdom, for instance, has a regulation stating that the roles of chair and CEO should not be exercised by the same individual.[27] Meanwhile, studies span the gamut, with some showing that CEO-chairs are detrimental to company performance,[28] some suggesting they're beneficial,[29] and others showing no effect.[30] Our own analysis found no statistically significant relationship between CEO–chair duality and long-term performance, as measured by return on invested capital (ROIC). And the board shouldn't assume a CEO-chair engaging with shareholders means that other directors are off the hook for communicating directly with their long-term investors.

their authority to lead and manage the business. There are legal concerns as well. Most regulatory bodies have strict rules ensuring that all investors have access to the same public information and that large or well-placed shareholders don't get additional details. Meetings between boards and shareholders risk exposing inappropriate information, so banning them seems like a simple way to ensure there are no slips.

With the right rules and preparation, however, disciplined boards can limit these risks and reap the rewards that come from hearing directly from long-term shareholders. Here are some of the approaches boards may consider.

A concrete commitment to long-term shareholder success. Relatively brief additions to the company's code, corporate governance guidelines, or charter can crystallize the board's long-term commitment and serve as a defense against pressure to maximize shareholder value in the near term. As examples, HSBC's terms of reference state: "The Board is collectively responsible for the long-term success of the Company and the delivery of sustainable value to shareholders"; GSK's guidelines state: "Our Board is responsible for the long-term success of GSK"; while Amazon's note: "The Board's primary purpose is to build long-term shareowner value."[31]

Dedicated time for investor feedback. Rather than reaching out in times of uncertainty or crisis, board members attentive to the long term can make a habit of asking investors to help them identify places where the company's value proposition isn't resonating. That could happen in a variety of different ways, including at the annual general meeting or as part of a specially planned event, like an "engagement day" or an off-cycle "board roadshow" with directors and major shareholders. Given that directors (and shareholders) are often time constrained, it's worth considering alternate platforms like a videoconference or online webinar.

An understanding that directors are speaking on behalf of the entire board. Even though directors may have individual meetings with investors, they are not representing themselves as individuals in those meetings. Rather, long-term directors engage with shareholders on behalf of the board as a whole, offering a representative perspective of the full board's thinking and viewpoint. Engagement on these terms is important in maintaining unified messaging from the company and helps alleviate fears of directors "going off script" or running afoul of disclosure regulations.

Open ears. Often, the most valuable information comes in the form of unexpected or unsolicited feedback, rather than in response to scripted or predictable questions. Giving shareholders the chance to talk freely makes them more likely to express their particular viewpoint.

A trusted company secretary. Effective secretaries are intimately familiar with the board's thinking and are quite knowledgeable about the positions of major shareholders. Working with investor relations, they can smooth collaboration with investors and help directors deliver a unified message.

ENSURE A DIVERSE BOARD

Diversity matters, both for board and company performance. A variety of studies have demonstrated the value of multidimensional diversity—across ages, genders, ethnicity, and beyond. One notable 2017 study found that greater board diversity was associated with reduced financial risk, larger R&D investments, and better operating performance.[32] FCLTGlobal's own research confirmed this assessment. Looking at MSCI ACWI firms between 2010 and 2017 and using a diversity metric that compasses both age and gender, we found that the most diverse boards (top 20 percent) added 3.3 percentage points to ROIC, as compared to their least diverse peers (bottom 20 percent.)[33]

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Gender diversity matters. When it comes to gender diversity, in particular, FCLTGlobal's analysis found that companies whose boards had the most gender diversity (top 20 percent) outperformed the least diverse (bottom 20 percent) by 2.6 percentage points, in terms of ROIC.[35] This is consistent with the wider literature. For example, in an analysis of shareholder returns—rather than of ROIC—Credit Suisse looked at 27,000 senior managers across 3,000 companies and found that companies with at least one female director generated a compound excess annual shareholder return of 3.3 percent over the prior 10 years.[36]

Tenure is not a decisive factor in board performance.

Based on our analysis, tenure has no statistically significant correlation with long-term value creation, though other researchers have arrived at different conclusions. One 2018 study of US firms found a U-shaped relationship between tenure and performance—where the best company performance was associated with boards whose average tenure was in a sweet spot of five to seven years, compared with the weaker performance of boards with longer and shorter tenure.[34] However, FCLTGlobal's broader analysis of global boards did not detect this U-shaped pattern, which could be due to differing sample sizes, geographies, and years. We did find that most MSCI ACWI boards are close to the optimal five-to-seven-year range, with an average tenure of 7.64 years.

Some proxy advisors are updating their recommendations as a result of the increasing empirical evidence. Glass Lewis, for instance, "closely reviews the composition of the board for representation of diverse director candidates and will generally recommend against the nominating committee chair of a board that has no female members. Depending on other factors, including the size of the company, the industry in which the company operates, the state in which the company is headquartered, and the governance profile of the company, we may extend this recommendation to vote against other nominating committee members."[37]

Age diversity matters. Having a mix of younger and older board members likewise seems to improve company performance. FCLTGlobal's in-house analysis found that companies with the youngest boards (youngest 20 percent) outperformed those with older boards (oldest 20 percent) by 1.7 percent in terms of ROIC.[38] Although the academic literature on age diversity among boards is less robust than for gender diversity, there are intuitive reasons to aim for a mix of ages. A board with younger and older members is likely to better reflect the age distribution—and age-related interests—of customers and employees. Younger directors are also more likely to be working, bringing current experience and shop-floor perspectives into the boardroom. (It is also possible that the benefits of age diversity overlap those of gender diversity, seeing as female directors are more likely to be younger, having risen through the business ranks more recently.)

Despite the potential benefits, a 2017 PwC survey of S&P 500 boardrooms found more directors over 69 years old than under 50, with those under 50 making up just 6 percent of all board seats.[39] Blair Jones, of Semler Brossy, thinks part of the problem is hard-dying habits: "We know the business value of diversity, but we also know people stick to what's familiar." If anything, boards seem to be moving in the opposite direction, with the average age of directors going up, not down.

However, forward-looking directors are recognizing the value that young peers can bring. Nine out of 10 directors say diversity of age is important, beating out gender, race, and other forms of diversity.[40] Some companies have adopted mandatory retirement ages (rather than term limits) as a way to ensure regular turnover. Microsoft has a guideline stating, “As an alternative to term limits, the Board will seek to maintain an average tenure of ten years or less for its independent directors. ...The Board believes that 75 is an appropriate retirement age for directors.”[41]

CONCLUSION

Company boards wield substantial influence over a company’s approach to long-term value creation and can provide the steady hand needed to steer a company toward a distant horizon. Setting the right long-term tone at the top is a critical role for the board, helping insulate management and the company as a whole from short-term market pressures.

Corporate boards are vital in helping companies maintain a longer-term focus. We plan to continue to explore the facets of board strategies, practices, and personnel that help companies build long-term value.

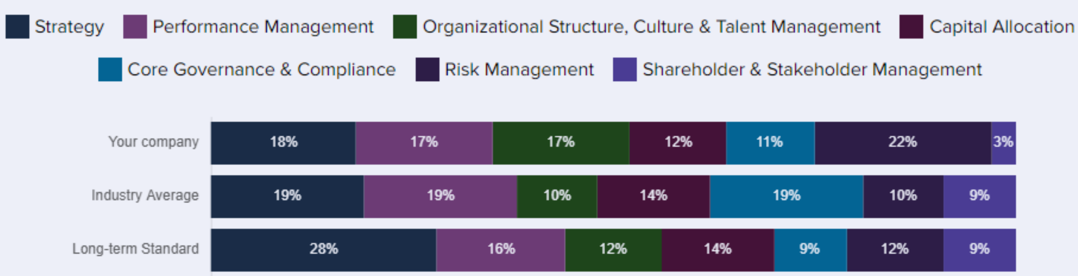
As our work on this subject expands over time, we welcome your experiences, perspectives and feedback at research@fcltglobal.org.

However, boards face significant pressure, which sometimes causes them to lose their focus on long-term success and get waylaid by near-term concerns. FCLTGlobal’s research shows that board members committed to the long-term success of their companies can further that mission with the following, focused actions:

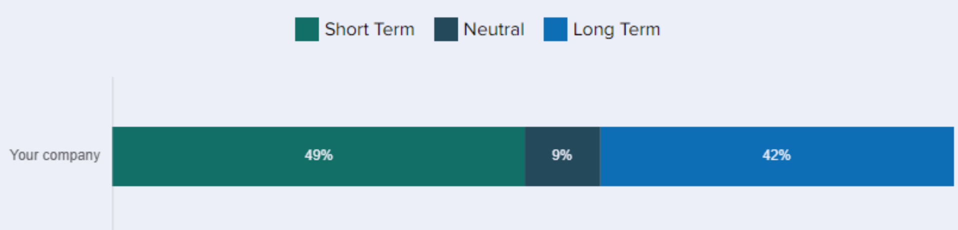
- Spend more time on strategy.
- Ensure that directors have a stake in long-term success.
- Communicate directly with long-term shareholders.
- Ensure a diverse board.

Use FCLTGlobal’s Time Visualization Meter to track your progress.

Time visualization by Category



Time visualization by Term



Acknowledgements

PROJECT CONTRIBUTORS

Jonathan Bailey
Neuberger Berman

Louisa van den Broeck
DSM

Ray Cameron
BlackRock

Tania Carnegie
KPMG

Mary Cline
EY

Gert Dijkstra
APG

Robert G. Eccles
University of Oxford, Saïd Business School

Michelle Edkins
BlackRock

Mike Everett
Aberdeen Standard Life

Blair Jones
Semler Brossy

Conor Kehoe
McKinsey & Co.

Kazim Tahir-Kheli
CPPIB

Stephen Klemash
EY

Kim Ly
University of Toronto, Rotman School of Management

Mohani Maharaj
Nuveen

Ben J.S. Mathews
HSBC

John McFarlane
Barclays

PJ Neal
Russell Reynolds Associates

Sabastian Niles
Wachtell, Lipton, Rosen & Katz

Richard O'Connor
HSBC

Friso van der Oord
National Association of Corporate Directors

Joel Posters
Future Fund

Lady Lynn Forester de Rothschild
E.L. Rothschild

Todd Safferstone
Russell Reynolds Associates

Laura Sanderson
Russell Reynolds Associates

Howard Sherman
MSCI

Dilip Soman
University of Toronto, Rotman School of Management

Graham Staples
Schroders

Sarah Teslik
Joele Frank

Saul Rubin
Wellington Management

John Vaske
Temasek

Barnaby Weiner
MFS

Victoria Whyte
GSK

Timothy Youmans
Hermes EOS

Endnotes

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Is My Board Cultivating the Long-term Habits of a Highly Effective Corporate Board?

A CHECKLIST FOR SELF-ASSESSMENT

A well-functioning corporate board of directors wields the power to meaningfully influence the purpose, culture, and direction of an organization. Is your board taking the steps necessary to help companies maximize their long-term potential?

A CHECKLIST FOR BOARD MEMBERS

IS MY BOARD ... Spending enough time on strategy?

- ❑ Prioritizing strategic concerns in meeting agendas and materials
- ❑ Letting committees do the heavy lifting
- ❑ Making pre-read materials mandatory to preserve meeting time for discussion and decision-making
- ❑ Documenting board-level decisions to avoid duplicative debate
- ❑ Leveraging time outside of meetings to advance the company's mission
- ❑ Using FCLTGlobal's Time Visualization Tool to evaluate and improve time management

IS MY BOARD ... Aligning director interests with those of the company?

- ❑ Encouraging directors to accumulate stock in the open market directly, mirroring the experience of long-term shareholders
- ❑ Locking up stock so it can't be sold until well after directors' tenure ends to inspire a long-term ownership mentality

IS MY BOARD ... Communicating with shareholders?

- ❑ Foregrounding long-term language in governance documents (e.g., "The Board's primary purpose is to build long-term shareowner value.")
- ❑ Dedicating time for investor feedback
- ❑ Speaking on behalf of the entire board
- ❑ Having open conversations, with ample time for both talking and listening
- ❑ Leveraging the company secretary's expertise

IS MY BOARD ... Ensuring a diversity of views?

- ❑ Recruiting directors with a variety of backgrounds, including younger directors and women

A CHECKLIST FOR INVESTORS

ARE THE COMPANIES IN MY PORTFOLIO OVERSEEN BY BOARDS THAT ...

- ❑ Prioritize strategy work?
- ❑ Encourage direct purchase of stock and long-term sale restrictions (lock-ups)?
- ❑ Request investors' views on company strategy and long-term vision?
- ❑ Encourage diversity—age, gender, and other dimensions?

FOCUSING CAPITAL
ON THE LONG TERM

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31 Saint James Avenue, Suite 880A, Boston, MA 02116 USA | +1 617 588 9950 | www.fcltglobal.org