

Guidelines and Attributes for Effective Independent Board Leadership

- We believe effective independent board leadership is a key component of good corporate governance and long-term value creation.
- Our guidance on the functions and responsibilities for independent board leaders is based on discussions with independent chairs and/or lead independent directors from multiple jurisdictions.
- We also identify the governance structures that can enhance their effectiveness as well as the skills and expertise necessary for effective, independent oversight of management.

Attributes of Effective Independent Board Leadership

- A skilled independent leader of the board
- Effective board processes
- Rich mix of board skills and experiences, including deep industry expertise
- Clear delineation of roles/accountability between board and management

Governance Structures That Enhance Effectiveness

Robust Selection Process In our experience, very few portfolio companies have institutionalized the process for selecting an independent chair or a lead independent director. We encourage companies and boards to adopt a framework that specifies relevant skills and characteristics.

The Position Should Be Sufficiently Tenured A reasonable tenure allows an individual time to develop in the role and build good working relations with management and other stakeholders. We believe a minimum of three years is required, with the prospect of additional terms based on performance.

Performance Evaluation of the Board Leader Independent board members should evaluate the effectiveness of the board leader on a regular basis. Further, the job description should also be periodically reviewed and updated to evolve with market and regulatory expectations.

Planning for Succession Given the importance of the role, boards should plan for an orderly succession of a director serving in the leadership position.

Effective Board Leaders Must

Be Good Communicators Since the role requires facilitating discussions among board members, between directors and the CEO/management, and engaging with shareholders/stakeholders, strong communication skills are necessary.

Have the Required Time Commitment Given the key functions of the position, we estimate that the role requires a significant time commitment to execute responsibilities effectively. Based on our engagement sample, the time commitment can range from one day a month (about 100 hours a year) to 2 days a week (over 800 hours a year). On average, the time commitment is between 300–400 hours a year.

Have Relevant Industry Expertise Independent board leaders tend to act as sounding boards to CEOs. Relevant industry expertise enhances the effectiveness of the individual and reduces the risk of a “management-knowledge-captured board.”¹

Have Personal Effectiveness This includes personal integrity and professional credibility; ability to earn the support of other directors and management; good problem-solving skills; sound judgment and leadership.

State Street Global Advisors’ Engagement and Proxy Voting Focus

Independent board leadership is a key focus area for our engagement with our global portfolio companies, especially in North America and Europe. In particular we will examine:

- Board leadership philosophy and structure
- Responsibilities of the independent/executive chair and/or lead independent directors as the case may be
- Attributes and measures of independence and whether the leadership structure allows for independent oversight of management and execution of key board responsibilities
- Processes in place to empower independent board leaders

In addition, we have seen a steady increase in the number of shareholder proposals that require a company to adopt an independent chair structure. We will evaluate a company’s board leadership structure against the guidelines laid out in this paper and engage with the independent leader of the board to help inform our voting decision in each particular case.

We hope board members of our portfolio companies find this guidance useful. Any questions or comments may be directed to Asset Stewardship Team, at GovernanceTeam@ssga.com. This guidance was initially published in 2016.

Figure 1

Key Functions and Responsibilities for Independent Board Leaders

Function	Description	Responsibilities
Board Leadership	Leads group of independent directors and acts as a liaison between independent directors and the CEO/senior executives.	Acts as liaison between independent directors and the CEO.
		Acts as a sounding board and advisor to the CEO.
		Has the authority to call for a meeting of independent directors.
		Sets the agenda for the meeting of independent directors with inputs from other directors.
		Leads meetings of independent directors.
		Oversees conflicts of interest of all directors including the CEO.
		Authorizes retention of outside advisors and consultants who report directly to the board.
		Leads or contributes to annual performance review of the CEO.
		Leads or participates in CEO succession planning and talent retention/development of senior executives.
		Leads board in time of crisis.
Board Culture	Fosters an environment of open dialogue and constructive feedback; encourages independent director participation at board meetings.	Assists in promoting corporate governance best practices.
		Encourages director participation by fostering environment of open dialogue and constructive feedback among independent directors.
		Helps ensure efficient and effective board performance and functioning.
		Establishes code of conduct for directors on the board including the CEO.
Board Oversight of Strategy	Ensures board ownership of strategy and provides guidance to the CEO on execution of the strategy, when needed.	Ensures that the board develops and periodically reviews the company's long-term strategy.
		Ensures that the board oversees management's execution of the long-term strategy.
		Assists in aligning governance structures with the company's long-term strategy.
		Provides guidance to the CEO on executing the long-term strategy.
Board Meetings	Plans, reviews and approves board meeting agendas; follows up on meeting outcomes and management deliverables.	Ensures effective functioning of key board committees and provides inputs on functioning of the committee, when required.
		Coordinates activities of board committees and receives feedback from the chairs of board committees.
		Leads or provides guidance on director succession and development.
		Facilitates cross-committee feedback and provides inputs on committee meeting agenda, if required.
		Leads or participates in ad-hoc committees established to deal with extraordinary matters such as investigations, M&As etc.
Board Committee Coordination and Effectiveness	Ensures effective functioning of board level committees and facilitates communication coordination across committees.	Plans, reviews and approves board meeting agendas and schedules in coordination with the CEO.
		Advises the CEO of the board's information needs and approves information sent to the board.
		Follows up on meeting outcomes and management deliverables.
Shareholder and Stakeholder Engagement	Meets with shareholders and stakeholders such as regulators, employees and clients when needed.	Engages and consults with major shareholders, when requested.
		Engages with key regulators to discuss board process and oversight of management and company, when necessary.
		Represents independent board members with other stakeholders, when necessary.
		Attends shareholder meetings as representative of the board.

Source: State Street Global Advisors' Asset Stewardship Team and Russell Reynolds.

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- Start with rigor
- Build from breadth
- Invest as stewards
- Invent the future

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* AUM reflects approximately \$43.72 billion USD (as of December 31, 2019), with respect to which State Street Global Advisors Funds Distributors, LLC (SSGA FD) serves as marketing agent; SSGA FD and State Street Global Advisors are affiliated.

Endnotes

- 1 Ann. C. Mulé and Charles M. Elson, "A New Kind of Captured Board," Weinberg Center, University of Delaware, Q1 2014.

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