ABOUT NACD

The National Association of Corporate Directors (NACD) is the premier membership organization for board directors who want to expand their knowledge, grow their network, and maximize their potential.

As the unmatched authority in corporate governance, NACD sets the standards of excellence through its research and community-driven director education, programming, and publications. Directors trust NACD to arm them with the relevant insights to make high-quality decisions on the most pressing and strategic issues facing their businesses today.

NACD also prepares leaders to meet tomorrow’s biggest challenges. The NACD Directorship Certification® is the leading director credential in the United States. It sets a new standard for director education, positions directors to meet boardroom challenges, and includes an ongoing education requirement that prepares directors for what is next.

With an ever-expanding community of more than 23,000 members and a nationwide chapter network, our impact is both local and global. NACD members are driven by a common purpose: to be trusted catalysts of economic opportunity and positive change—in business and in the communities we serve.

To learn more about NACD, visit www.nacdonline.org.
ABOUT THE FUTURE OF THE AMERICAN BOARD COMMISSION

In January 2022, NACD established The Future of the American Board Commission, comprising 19 leaders in governance, including leading directors, investors, academics, CEOs, and former regulators, to develop a set of guiding principles for boards to help them govern into a more turbulent future.

The goal of the initiative is to help boards evolve to meet the demands of a more demanding, inclusive, and turbulent future. The Commission developed principles within The Future of the American Board report to guide American directors and corporations into the future and will continue their mission with updates from the initiative’s partner-led working groups in 2023.

ABOUT THE REPORT

This report is about leading boards into the future and positioning them to become better stewards of long-term value creation for all stakeholders. This will not be an easy process. It will involve challenging discussions about the purpose of the corporation and the accountabilities of the board. It will entail uncomfortable decisions about board members who are not fit for the future, and difficult changes to reinvent board processes and reshape behaviors. It will demand a commitment to continuous and fast learning on new drivers and derailers of value and to creating room for diverse voices and perspectives. The reward is clear: in a world that seems less governable, the quality of board governance is increasingly vital to the sustainability of our enterprises and trust in our market economy.
EXECUTIVE SUMMARY

Boards of directors of public and private US corporations must chart an ever-more-turbulent and unpredictable present and future, marked by expanding expectations, conflicting demands, and intense scrutiny in an environment of growing complexity, disruption, and ever-accelerating change. While the legal responsibilities of a board of directors and the fiduciary duties of its members remain durable over time, they are also highly dependent on the particular facts and circumstances. Navigating the volatile business environment of today and tomorrow requires an increasingly agile and well-informed board that is purpose driven and understands the interrelationships and codependencies between long-term corporate success and the interests of shareholders, customers, employees, and other key stakeholders.

Positioning a board to meet these challenges requires a tailored approach that moves beyond the governance structures and practices that have been the focus of much “best practice” guidance to date. To advance their performance, boards must now focus on the more nuanced and difficult issues: issues of purpose, accountability, objectivity, information, relationships, talent, culture, commitment, refreshment, and engagement that are highly context dependent and to a large degree rely on the collective behaviors of individual directors.

This Framework provides a principles-based foundation for ongoing governance improvement, with explanatory text and questions for boards to consider as they assess how they are positioned to govern in a far more demanding time. It emphasizes the following areas for board consideration to be fit for a future of accelerating change and complexity:

► PURPOSE: View corporate purpose as a motivating and unifying force and rethink corporate success through a long-term lens. Corporate purpose—defined by the problems addressed and the needs filled by the corporation’s goods and services—when well articulated provides a powerful force to motivate and unify corporate activity and define priorities. Boards should expect that corporations will continue to be looked to for solutions to a range of problems, with success assessed through long-term performance and impact.

► ACCOUNTABILITY: Recognize that consideration of employee, customer, and other stakeholder interests is key to acting in the corporation’s best interests and delivering value over the long term to shareholders. The interests of the corporation, its shareholders, employees, customers, and other key stakeholders in the corporate purpose are interdependent and should factor into corporate decision-making.

► OBJECTIVITY AND OVERSIGHT: Embrace board self-determination regarding both governance and agenda priorities. How a board adjusts to address the dynamic business environment and expanding expectations while navigating uncertainty remains a matter of business judgment for each board to determine. Expect effective governance in a fast-moving world to require more direct and active involvement by directors and to a greater degree than in the past. The board should determine the best position for effective and agile governance and select the issues for board focus, and it possesses the autonomy to do so. Meeting agendas should align with current board priorities and be adjusted as needed. Boards can no longer wholly defer to
management to determine priorities or simply rely on the formula provided by last year’s board calendar and work program. While each board must determine its own priorities, it is highly likely that those priorities involve issues of strategy, risk, and talent.

**INFORMATION:** Position the board for informed, deliberative, and agile decision-making through board determination of information needs, and fit-for-purpose information and reporting systems. Ensuring that boards are well-positioned to satisfy their responsibilities requires periodic reassessment of the processes in place to ensure the board is well informed on a timely basis of matters requiring its attention. Directors need information about the company’s business operations, performance, risk management, talent and capabilities, and compliance and ethics. Metrics reported to the board should relate to progress in achieving strategic and operational objectives, and ethical, diversity, environmental, and other citizenship goals, and not be limited to financial information and results. Information and reporting systems must ensure that directors receive the information they need and in a format that is useful. These systems need to evolve to keep pace with the board’s agenda and priorities, to ensure the board is well-positioned to act deliberatively on these matters in the face of turbulence and heightened expectations. Information about the company from sources outside of management (such as the company’s workforce, customers, suppliers, and competitors) and inputs from data analytics and AI may provide directors with other perspectives on how company culture, strategy, risk, and talent management are working in practice. Directors should not strive to have the same information set as management; this can be counterproductive and inhibit the ability of directors to apply their own outside perspectives when challenging management.

**RELATIONSHIPS:** Bolster trust in board and board-management relationships through agreed norms of behavior. Behavioral norms designed to build trust help support constructive board and board/management relationships. Agreed behavioral norms help ensure that directors do not unduly intrude on management or otherwise cross the line into management. Agility must not be confused with overstepping into management’s arena; the line between the board’s role and management’s role may become blurred with the speed of events, and it is critical to keep those spheres separate to ensure that the board can function as an oversight body and hold management accountable. Building trust in relationships is supported by in-person interactions, guidelines around access to management and around director communications between meetings, and regular training on topics like board responsibilities and confidentiality.

**TALENT:** Pay attention to issues impacting the workforce and understand the link between strategic imperatives and officer and employee capabilities and constraints. Driving long-term corporate performance requires a talented workforce that is committed to providing superior products and services. As the labor market evolves and employees look for more from their workplace than just compensation, workforce satisfaction and engagement are key topics for board focus. A rational and equitable approach to compensation requires appropriate incentives related to the key drivers of long-term success that do not encourage unduly risky behavior. The relationship
between the CEO’s pay, the pay of the CEO’s direct reports, and average employee pay should also be rational and equitable.

- **CULTURE:** Define the parameters of desired corporate and board culture, and monitor them. Directors need to continually assess the strength of corporate and board culture and the efforts of management to establish a beneficial culture—including in relations with employees. Boards need to determine what information they need to successfully monitor and assess corporate culture, including information from outside the company and information that has not been filtered by management. Supporting an effective board culture are behavioral norms that enrich the quality of board deliberations by ensuring that diverse viewpoints are welcomed and considered. Boards can unleash the full potential of a diverse board by enabling all directors to contribute their own unique skills, backgrounds, and perspectives to the decision-making process. With boards now allocating more time to deliberation and discussion of priority items, boards have more time to consider all director viewpoints.

- **COMMITMENT:** Recognize that more is required of directors to stay well informed and to be available on a far more frequent and flexible basis. Adapting to changing circumstances and responding to emerging issues requires robust understanding of the company’s business, industry, and competitors, and the changing environment in which it operates. Engaging in continual learning, keeping knowledge up to date throughout the year, and making time to meet and review materials outside of the normal board schedule all require directors to be disciplined and committed. Governance agility needs to be supported by processes and practices for expedited decision-making when the need arises, including as to complex issues that at least some directors may not have experience with as managers or directors. The additional flexibility and availability directors need to attend special meetings at short notice and stay informed may require directors to rethink other commitments.

- **REFRESHMENT:** Avoid defaulting to renomination rather than undertaking tough decisions. Ensuring that board composition is well-aligned with changing business needs requires rethinking reliance on age or term limits and more actively evaluating individual directors in connection with decisions whether to renominate.

- **ENGAGEMENT:** Value interactions with shareholders, employees, and other key stakeholders as opportunities to learn about their interests and concerns and to build relationships of trust. Directors should be prepared to participate in direct engagement meetings at the request of the board or management, with coordination on goals and messaging. Boards and management benefit from other perspectives, while also sharing information about the company’s view of its purpose, the strategy to achieve that purpose, and related risks. Disclosure decisions around key issues should be coordinated to ensure consistent messaging (and to avoid risks of siloed information) and be aligned with the company’s values, its positions on social and political issues, and positions it supports through political contributions, lobbying, and trade groups. Boards need to determine with management whether, and in what circumstances, the company should engage in taking public positions or otherwise
engage in public discourse on matters of importance to key consumers, employee
segments, and/or investors.

We predict that the work of the board will become more complex in an ever-more-turbulent envi-
ronment. These Principles provide guidance to help boards reassess their priorities and governance
approach in the interests of ensuring that the US corporation remains fit for purpose in providing
goods and services in a manner that benefits stakeholders and society at large.
A FRAMEWORK FOR GOVERNING INTO THE FUTURE

PRINCIPLE ONE

CORPORATE PURPOSE
The company’s purpose, as defined by the problems addressed and the needs filled by its goods and/or services, should drive its behavior, shape its governance, and position the company to create sustainable long-term value.

PRINCIPLE TWO

RESPONSIBILITY & ACCOUNTABILITY
The board is responsible for the long-term sustainable performance of the company, and governance structures and practices should be designed by the board to position it to function effectively, efficiently, and in an accountable manner.

PRINCIPLE THREE

OBJECTIVITY & OVERSIGHT
Governance structures and practices should position the board to provide objective judgment and active oversight, supported by board leadership that is distinct from management.

PRINCIPLE FOUR

AGENDA & INFORMATION
Governance structures and practices should be designed to support the board in determining its own priorities, agendas, and information needs, and to assist the board in focusing on priority issues.

PRINCIPLE FIVE

BOARD-MANAGEMENT RELATIONS
Governance structures and practices should support a relationship between the board and senior management that is open, objective, and both constructively supportive and challenging.

PRINCIPLE SIX

STRATEGY & RISK
Governance structures and practices should support the board as adaptive and agile, focused on strategy and risk, and prepared to take appropriate action in a crisis.

PRINCIPLE SEVEN

TALENT & COMPENSATION
Governance structures and practices should support board focus on the corporate policies and practices that support the attraction, retention, development, compensation, and well-being of the talented and motivated workforce required for the corporation to succeed.

PRINCIPLE EIGHT

CORPORATE & BOARD CULTURE
Governance structures and practices should position the board to provide oversight of corporate and board culture, with the objective of promoting integrity, inclusion, and responsibility.

PRINCIPLE NINE

COMPOSITION, REFRESHMENT & DIVERSITY
Governance structures and practices should be designed to ensure that board and committee composition align with changing needs and that directors are competent, committed, and diverse.

PRINCIPLE TEN

TRANSPARENCY, COMMUNICATIONS & ENGAGEMENT
Governance structures and practices should be transparent and designed to encourage communication and engagement with shareholders and other key stakeholders on matters of importance.