

***Annual corporate director
survey 2011 findings***
Boards respond to
stakeholder concerns

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Boards respond to stakeholder concerns

During the last two years, corporate directors have had to accommodate significant corporate governance changes, starting with the Securities and Exchange Commission's rules expanding governance disclosures in the 2010 proxy season and including the enactment of the Dodd-Frank Act in July 2010. The new advisory votes on executive compensation and whistleblower rules, among others, are clearly influencing the director's oversight role. The financial crisis also led to some concern by many regarding the efficacy of the role of boards in meeting their oversight responsibilities. With the evolving corporate governance climate, corporate directors face increased scrutiny from shareholders, regulators, politicians, the media, and other stakeholders.

In the summer of 2011, 834 corporate directors responded to PwC's 2011 Annual Corporate Director Survey. Sixty seven percent of survey respondents were on the boards of companies with more than \$1 billion in annual revenue, representing the current boardroom thinking of today's world-class companies. Their responses indicate a clear recognition of the challenges they face with this altered landscape. Directors are listening carefully, and are focused on responding, to the concerns expressed by shareholders, regulators, and other stakeholders.

Directors are working diligently to meet the increased expectations. They're making improvements to proxy compensation disclosures and generally exhibit a willingness to provide more transparency and engage in more dialogue with stakeholders.

Directors also report they are working to increase their effectiveness, focusing on areas of risk and opportunity. They are alert to elevated concerns regarding IT security, in line with the rising trend of data breaches. They also recognize the opportunities inherent in the adoption of emerging technologies, including the move to cloud computing. With the increase in fraud investigations by judicial authorities, directors are more concerned about bribery and corruption. Additionally, they recognize the necessity of spending more time on other areas of particular concern to stakeholders, including strategy and succession planning, as well as more effective approaches to fostering diversity on their boards.

The response is clear: Directors are serious about embracing change. They're working to communicate with and address the concerns of key stakeholders. They're modifying their oversight role in response. And they are focusing on those strategies they believe will promote future success.

Currents of change

Compensation

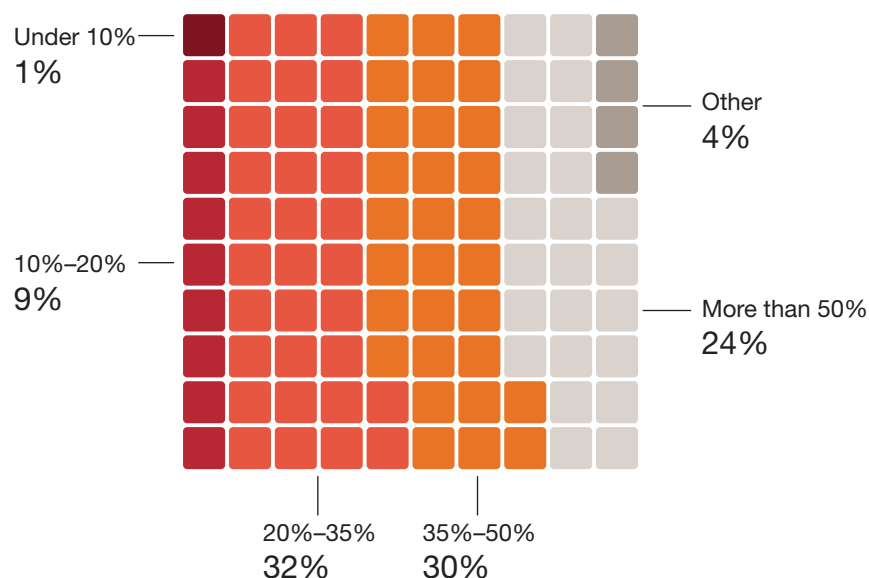
Say on pay: Not as simple as pass/fail

The 2011 proxy season marked the first in which all shareholders were given an advisory vote on executive compensation. Interestingly, “say on pay” voting resulted in the rejection of pay packages at only 38 companies, even though proxy advisory firms recommended “no votes” for approximately 250 companies. Though this statistic seemingly suggests that the advice of proxy advisors may not be completely persuasive, their influence should not be underestimated. Why? Because directors do not think of the vote as simply pass or fail.

Indeed, 72% of directors indicate that their boards would reconsider executive compensation—even when these votes pass — if there are indications of significant shareholder dissatisfaction.

It appears the voice of proxy advisory firms can affect a board’s thinking — a presumption also supported by the fact that 24% of boards have increased board-level communications with proxy advisory firms during the last 12 months (see page 8).

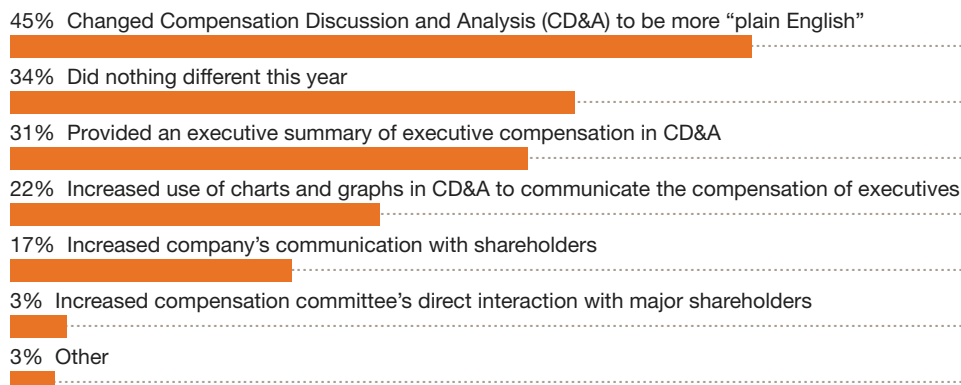
What percentage of negative votes in the “say on pay” vote would cause your board/compensation committee to reconsider the compensation of executives?



Transparency increases

The director community understands the importance of simplifying the complex compensation information investors receive so it’s easier to understand. To prepare for the “say on pay” vote and to embrace investor concerns about executive compensation, two-thirds of directors made changes to their approach from prior years. Forty-five percent changed the Compensation Discussion and Analysis (CD&A) to be more “plain English,” and 31% provided an executive summary in the CD&A.

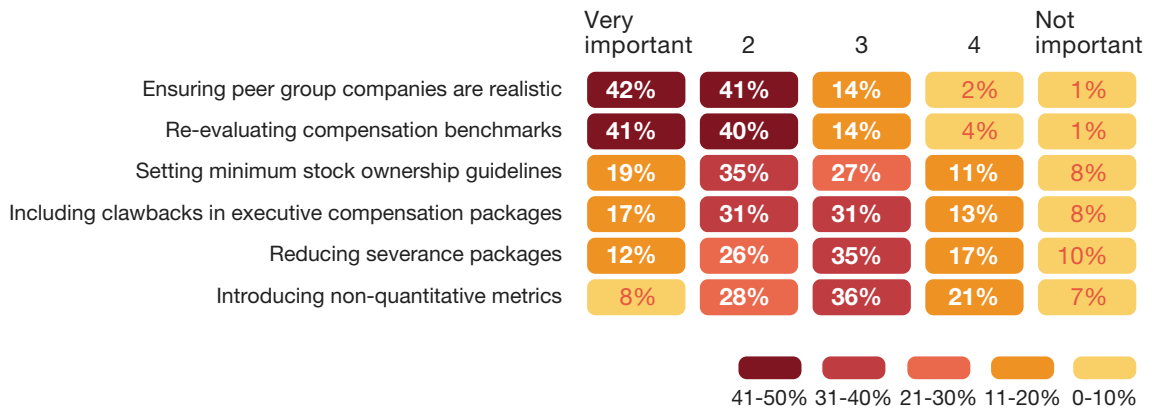
Did your company and/or board do anything different from prior years to prepare for the say on pay vote? (Participants selected all that apply)



Boards evaluate compensation packages through appropriate benchmarking

When rating the importance of the factors being considered by the compensation committee for the purpose of improving CEO pay practices, directors rank accurate and appropriate peer group evaluation as the most important factor, with 42% stating it is very important. Close behind is re-evaluating compensation benchmarks with 41%, followed by setting minimum stock ownership guidelines, which 19% ranked as very important.

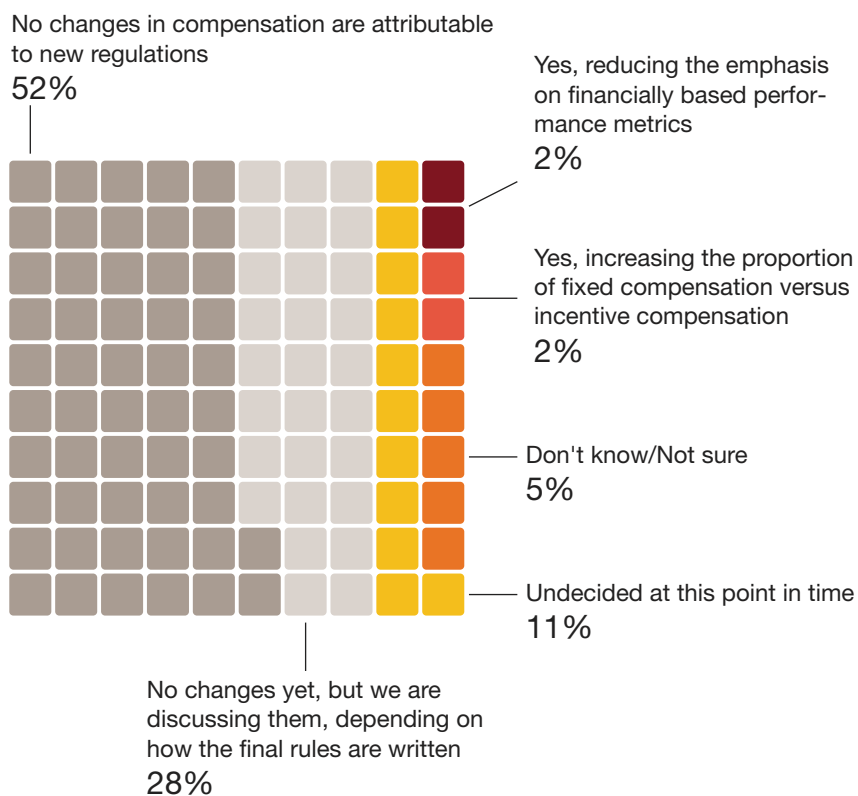
Please rate the importance of the following factors being considered by the compensation committee for the purpose of improving CEO pay policies: (Participants selected all that apply)



Impact of Dodd-Frank on clawback policies

Few compensation committees have changed executive compensation packages to potentially lessen the impact of the clawback policies mandated by Dodd-Frank. (The Act calls for companies to adopt policies to claw back incentives paid to executives that were based on financial statement results that had to be restated.) Thirty-nine percent of directors report they are still evaluating whether to change compensation programs to address the anticipated clawback rules. While more than half (52%) reviewed the proposed rules against their existing protocols in compliance with Sarbanes-Oxley, they do not foresee changes to their compensation plans.

Is the compensation committee making changes to the compensation of executives to potentially lessen the impact of the clawback policy mandated by Dodd-Frank?



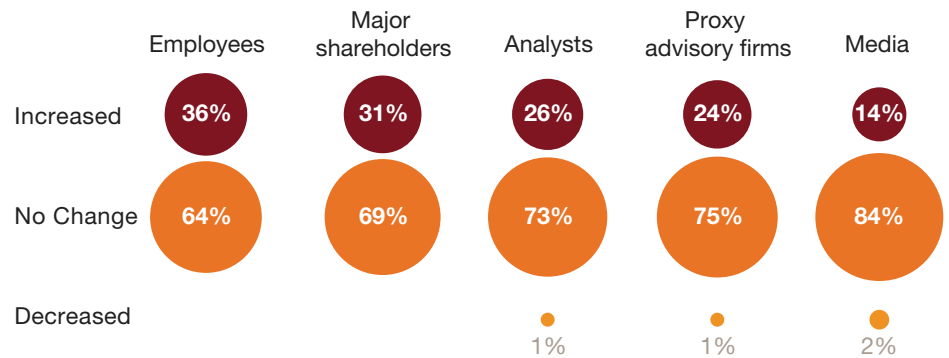
Board-level communications

More board involvement

Many directors increased communications with stakeholders during the last year in response to the desire of various corporate constituencies for more dialogue with board members. The largest increase is seen in communications with employees (36%), while 31% report an increase in communications with major shareholders. Just over one-quarter (26%) report an increase in communications with analysts.

As additional evidence supporting the evolution of boards' communication policies, nearly half (47%) of directors say the board should have a role in communicating governance issues to major shareholders, and one-third (33%) indicate the board should communicate governance issues to proxy advisory firms, as well as employees.

How has the board's level of communication with the following groups changed in the last 12 months?



Directors at companies with more than \$10 billion in annual revenue indicate that their boards' increased communications are predominately focused on major shareholders.

Risk management

Emphasis continues expanding

Because the economic crisis further increased the importance and scrutiny of governance oversight, expectations of many constituents have reached unprecedented levels. Boards are working to adapt their oversight role as the risk landscape shifts to address the pertinent risks for their companies — across operational, financial, environmental, and IT security risks.

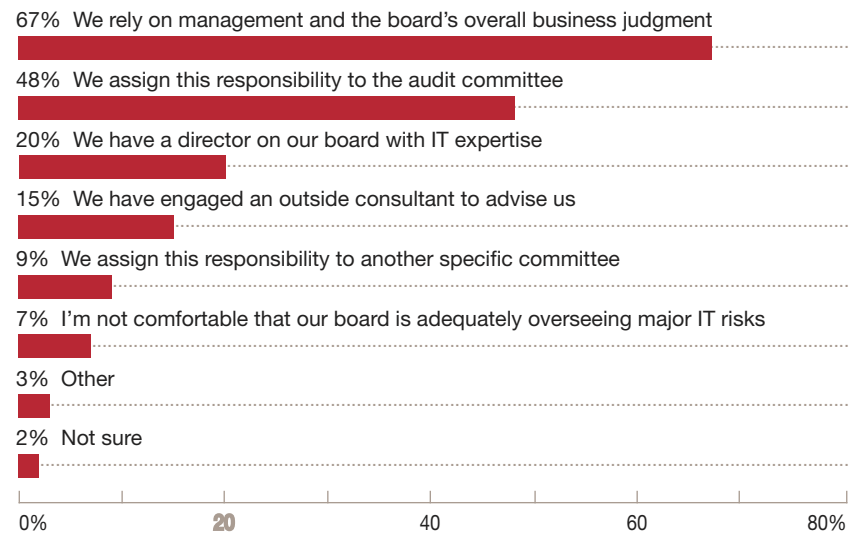
Today, only 19% of directors rate their board as very effective at monitoring a risk management plan that mitigates corporate exposure (see page 13). To improve that performance, 57% report they would like to increase their focus on risk. The trend toward a desire for more effective risk management oversight is not new. In 2009, 66% of board members were interested in spending more time on this area. In 2010, this percentage decreased but was still at 57%. Not surprisingly, in 2011, 36% of directors indicate that risk management is already an area of major focus and therefore did not feel a need to dedicate more time to it.

Concern over IT risk escalates

Directors recognize both the significant competitive advantages that can be gained through the use of emerging technologies, as well as the threat of increasingly sophisticated cyber attacks. As such, directors are particularly concerned about their ability to effectively oversee information technology risks. Nearly half of directors (46%) believe the board's ability to oversee strategic use of IT is less than effective (see chart on page 22), and 38% want to spend more time on IT (see chart on page 13).

A significant number (67%) of directors address IT risk by relying on the board's understanding of the business and working with management. Others gain comfort by having a director on their board with IT expertise (20%) or by engaging an outside consultant (15%) to advise them. That said, a majority (52%) say it is difficult to find IT expertise to add to their boards.

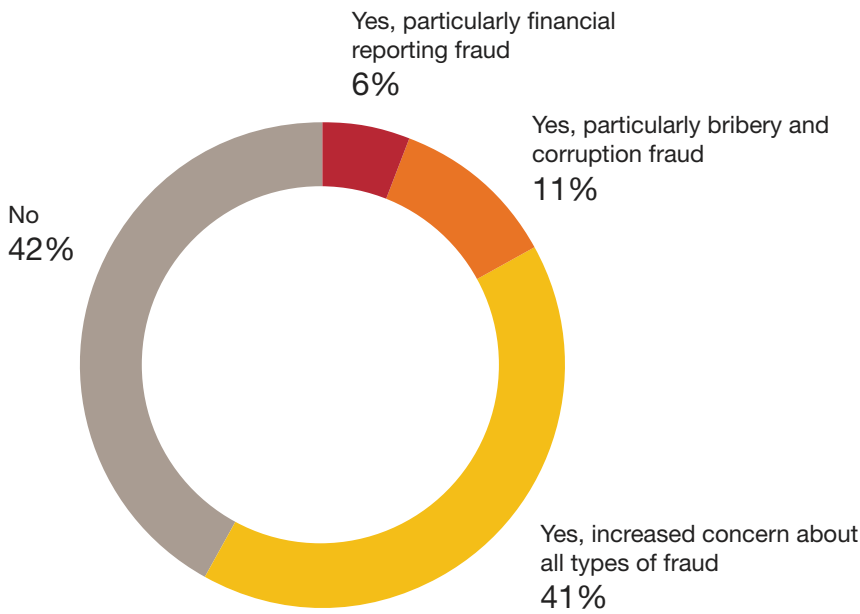
**How does your board oversee major IT risks?
(Participants selected all that apply.)**



Board members and corporate compliance concerns

Forty-one percent of directors express an increased concern about fraud, which is in line with the growing frequency of investigations related to the Foreign Corrupt Practices Act. As a consequence, there is a particular concern about bribery and corruption (11%), which exceeds the concern about financial reporting fraud (6%).

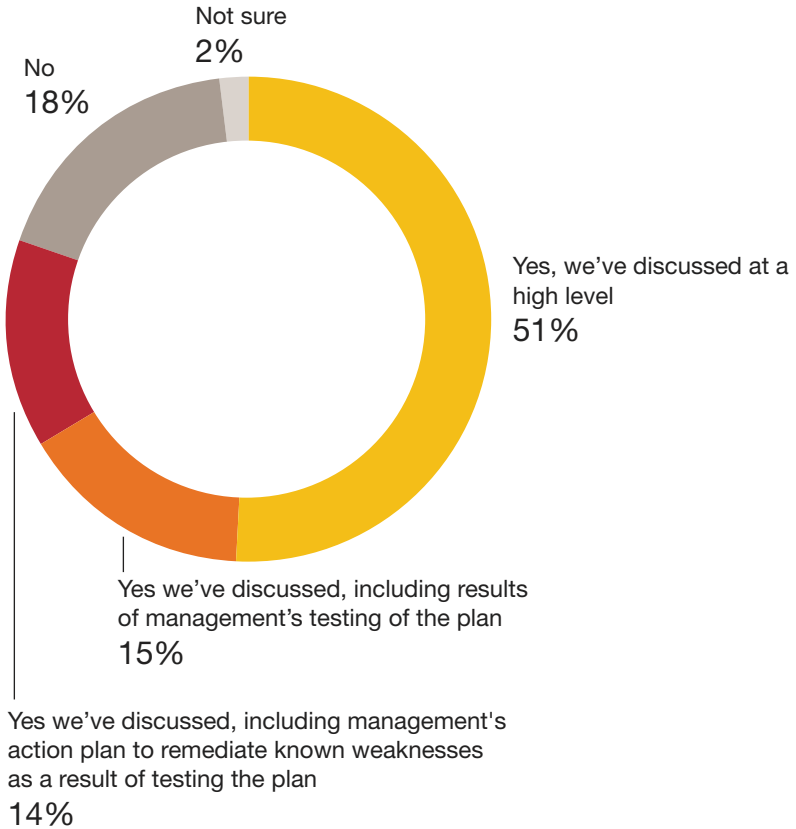
Are you concerned about potential fraud?



Crisis planning

To complete the risk management cycle and mitigate potential negative consequences, boards are responding by enhancing their oversight of the company’s crisis management planning. Eighty percent indicate they have discussed business continuity plans during the last 12 months. Looking forward, 38% report they would like to increase their focus on crisis management planning (see chart on page 13). In our 2010 survey, only 67% of directors indicated they discussed an action plan to deal with a major crisis during the last year.

In the last 12 months, has your board discussed management’s business continuity plans to respond to a major crisis?

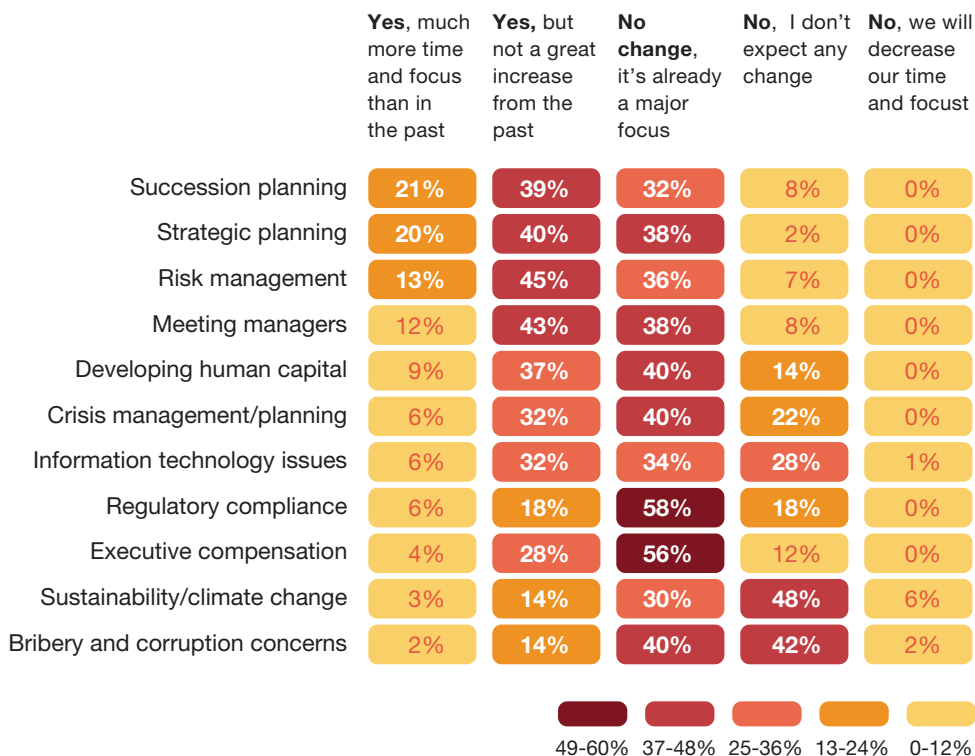


Looking ahead with eyes wide open

Focus on the future

The directors weighed in on their boards' effectiveness across a number of their oversight responsibilities, as well as areas that they would like to spend more time focusing on. Succession planning is at the top of the list for increased consideration by directors, closely followed by strategic planning. Risk management remains near the top of the list, followed by meeting managers from key parts of the company.

Please indicate if you would like your board to devote more time in the upcoming year to considering the following board matters.

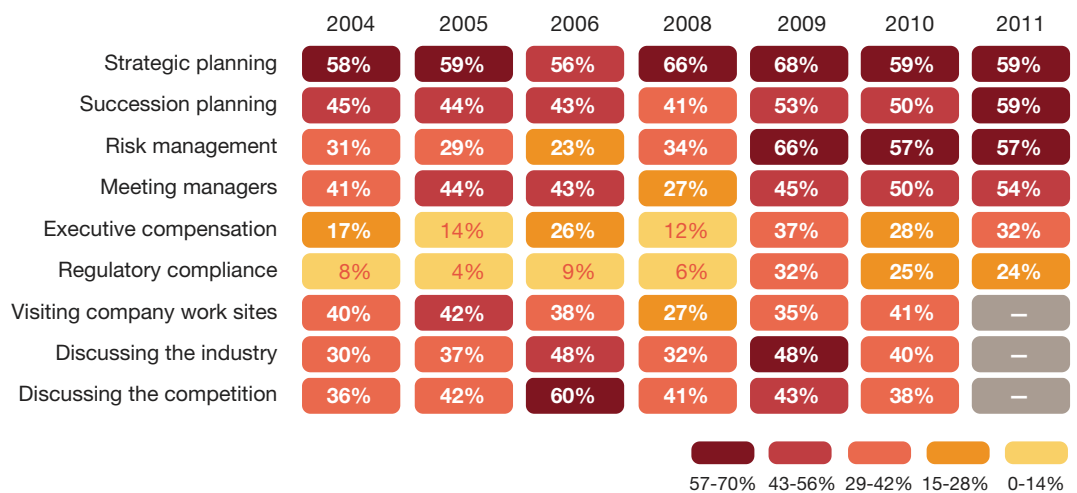


See next chart for a year over year comparison.

Succession planning moves up the priority list

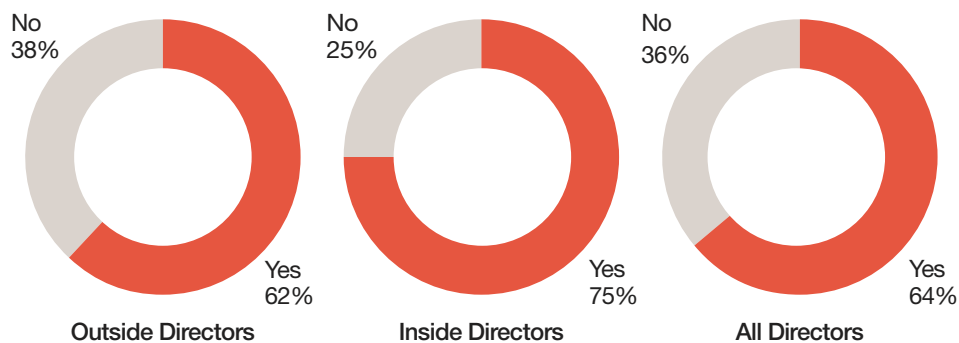
Leadership succession is “top of mind” with shareholders. In fact, the importance of spending more time on succession planning increased more than any other issue, as compared to responses to the same question in the prior year survey. This year 59% of directors indicate they would like to increase the time and focus on this issue, up from 50% last year.

Please indicate if you would like your board to devote more time in the upcoming year to considering the following board matters:



Currently, 36% of directors are not satisfied with their company's CEO succession planning. The majority of inside directors (75%) are satisfied, compared to 62% of outside directors reporting satisfaction. Additionally, the higher the company's annual revenue, the more likely a director is to be satisfied with the CEO succession plan. This suggests that the boards of larger companies may be spending more time on identifying successor CEO candidates.

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



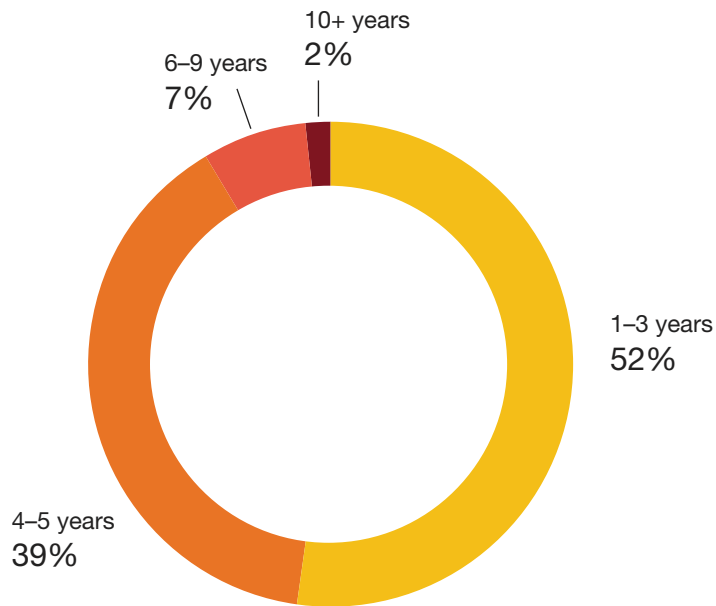
Strategy

Boards plan well ahead and monitor relevancy

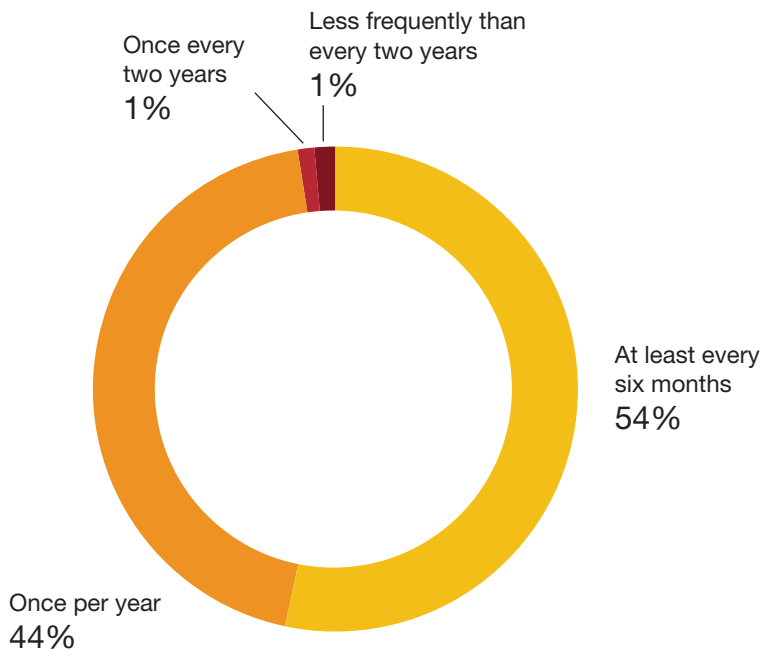
Boards approach strategy setting with varying time horizons, and they frequently discuss the continued viability of the company's strategy. In discussing strategy, a majority of boards (52%) use a one to three year horizon, while 39% use four to five years as their strategic timeline. Larger companies tend to use a longer timeframe, with 48% of those with a market capitalization over \$10 billion looking four to five years out, while one to three years is most prevalent (67%) among those under \$500 million.

When asked how often their boards reevaluate the continued viability of the company's strategy, more than half (54%) of directors indicate a frequency of every six months, and 44% say once per year.

When your board is discussing the company's strategy, what time horizon is primarily used?



How often does your board have discussions about the continued viability of the company's strategy?



Diversity

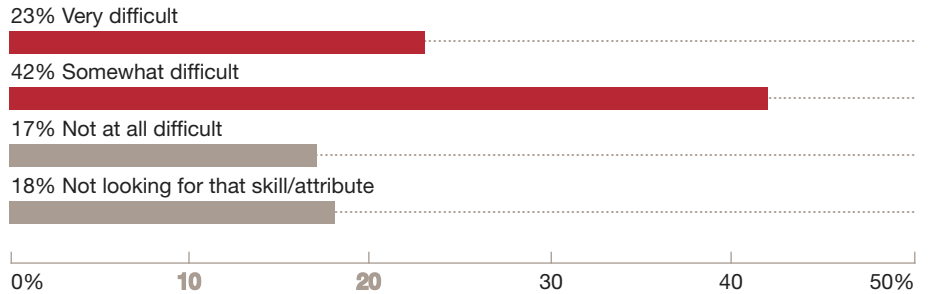
Continues to be a challenge

The increased emphasis on diversity, driven by globalization and acknowledgement of the increase in purchasing power of women and minorities, has many boards assessing their membership. While most have made it a goal to increase diversity, many find it challenging to build racial and gender diversity into their boards. In fact, 65% of directors indicate it is difficult to increase racial diversity on the board.

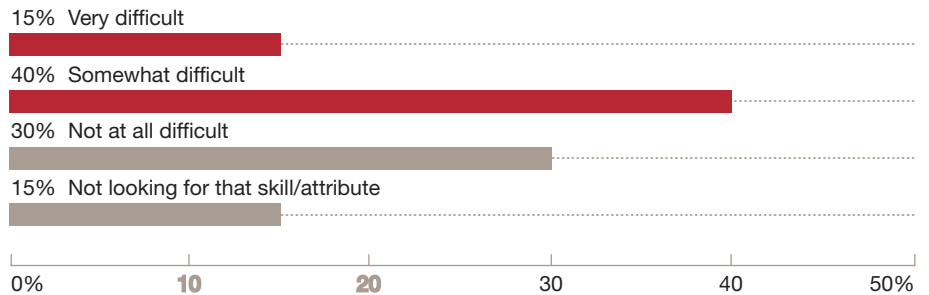
More than half of directors (55%) indicate that it is difficult to add gender diversity. Interestingly, a majority of male directors (56%) expressed the view that it is difficult to add directors with gender diversity, as compared to 47% of female directors who say it is difficult to find such directors. This may suggest that women directors have a greater awareness of qualified female board candidates than their male counterparts.

Describe your board's experience with trying to add directors with the following skill sets/attributes:

Racial diversity



Gender diversity

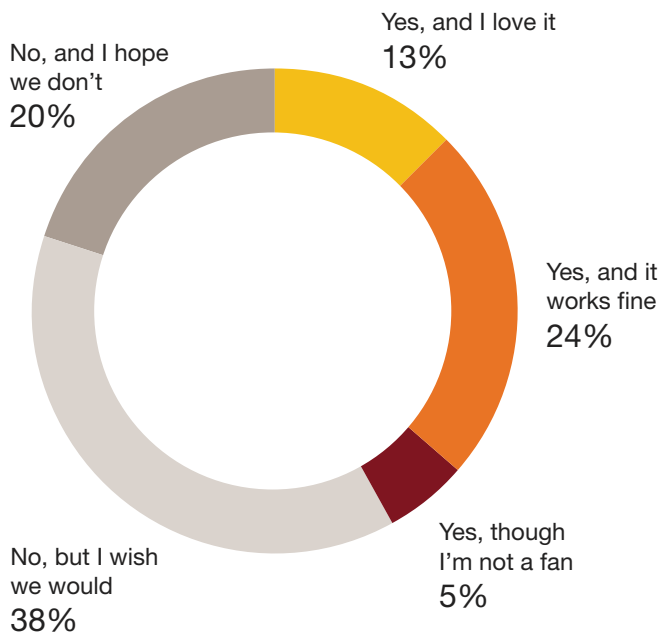


Board's use of technology

Use of emerging technologies in the boardroom is increasing

As technology evolves, so does the board's use of it. Nearly half of directors (42%) indicate their boards have started using tablets or smart phones in the last 12 months to receive their board materials, while an additional 38% wish that their board would use them. Notably, board members who have served more than five years whose boards do not use such devices are most likely to hope their boards don't start doing so.

In the last 12 months, has your board begun to use tablets, smart phones, and/or other mobile devices for board-related information delivery?



In summary

This past year has brought about significant challenges for corporate directors, and they are actively responding by revising their approach to their oversight role. They are listening and considering the views of shareholders, regulators, and other stakeholders. They are focused on concerns about compensation policies and transparency, enhancing communications, and addressing new risks. And they are dedicating even more attention to planning—towards further enhancing shareholder value.

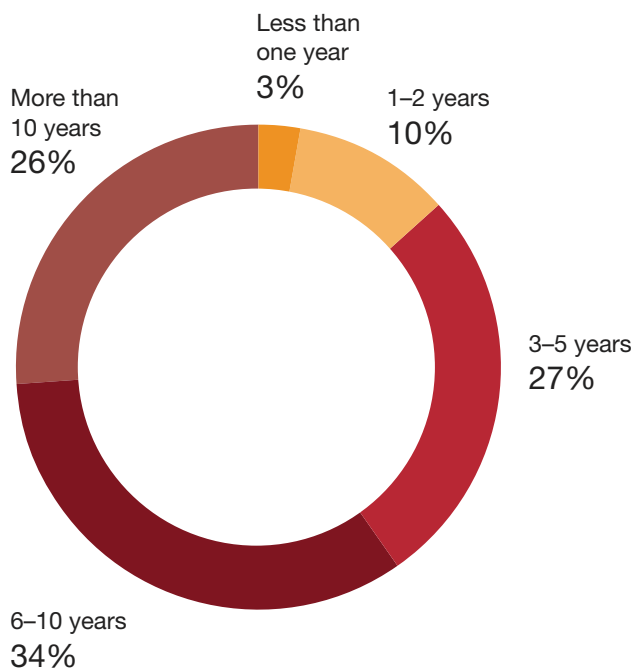
For additional analysis on the survey results, please see our *10Minutes on the 2011 Annual Corporate Director Survey*, which will be available on PwC's Center for Board Governance website, www.pwc.com/us/CenterForBoardGovernance.

Appendix: About the survey participants

Of the 834 corporate board members who participated in the survey, 84% are independent board members, and 16% are inside directors. A total of 89% are male, and 11% are female. Fifty-seven percent of directors serve on the audit committee, 46% serve on the governance/nominating committee, and 45% serve on the compensation committee. Further demographic details are listed below.

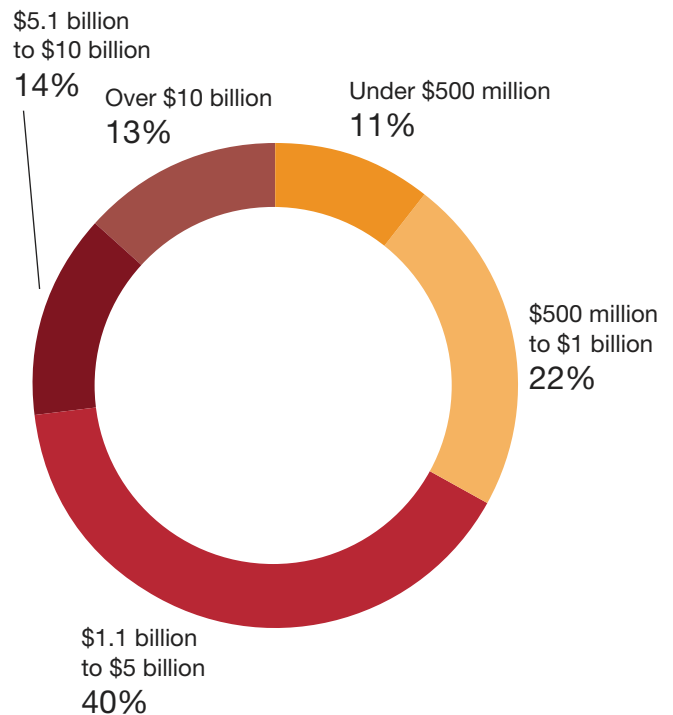
How long have you served on this board?

The majority of directors have served more than six years.



What are the annual revenues for the company?

Sixty-seven percent of directors polled represent companies with annual revenues over a billion.

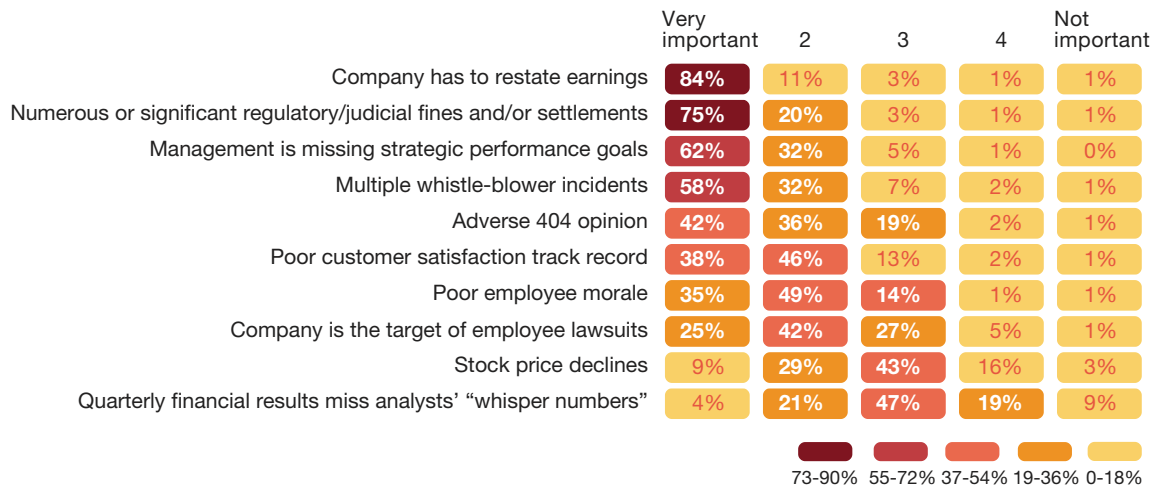


Appendix: Other findings

Red flags

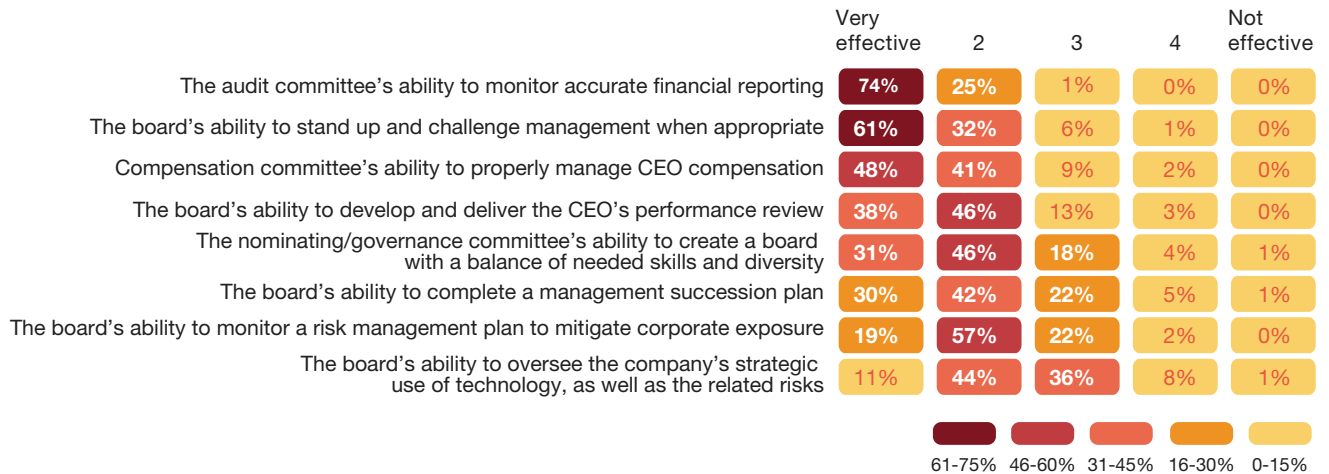
How important is each of the following “red flags” in signaling a director to step up his/her board involvement?

In every category a higher percentage of outside directors rated the red flag areas as “very important,” compared with inside directors.



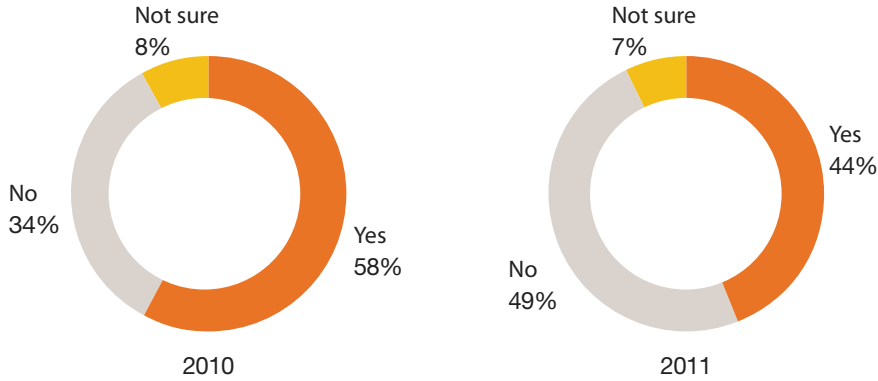
Effectiveness of oversight

How would you estimate the effectiveness of your board on each of the following dimensions?



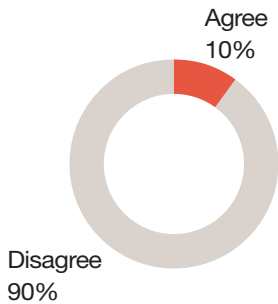
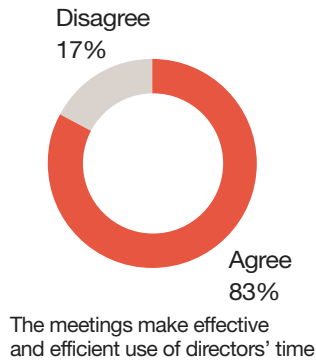
CEO compensation

In general, do you believe US company boards are having trouble controlling the size of CEO compensation?

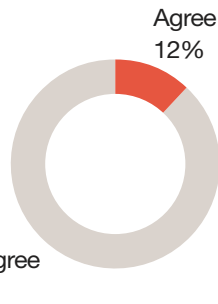


Meeting management

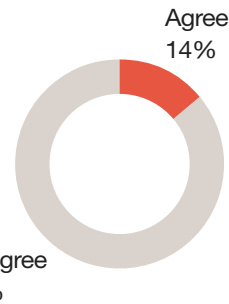
How would you rate the time you spend in board and committee meetings?



The meetings would be better if we spent less time on compliance matters



The meetings would be better if we spent less time on presentations by management



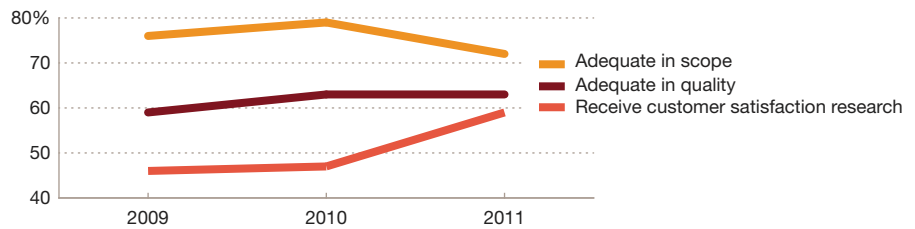
The meetings would be better if we spent less time on administrative matters

Information received, quality and scope

Does your board receive the following information and is it adequate in scope and quality?

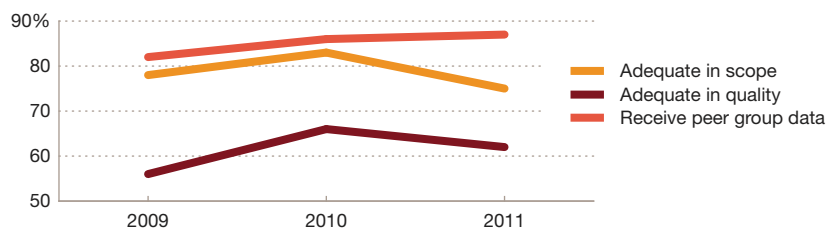
Directors report an increase in receiving general and/or specific customer satisfaction research in 2011, currently at 59%, compared to 47% in 2010 and 46% in 2009, while the adequacy of such information in scope and quality have slightly declined.

Customer satisfaction research



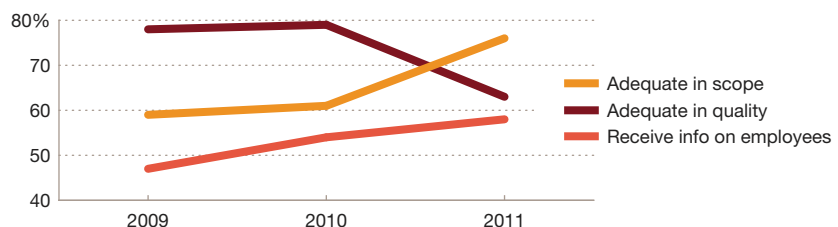
In 2011, 87% of boards say they receive peer group financial/business data, up from 86% in 2010 and 82% in 2009. Satisfaction with the adequacy of peer group data in scope and quality both declined this year.

Comparison peer group financial/business data



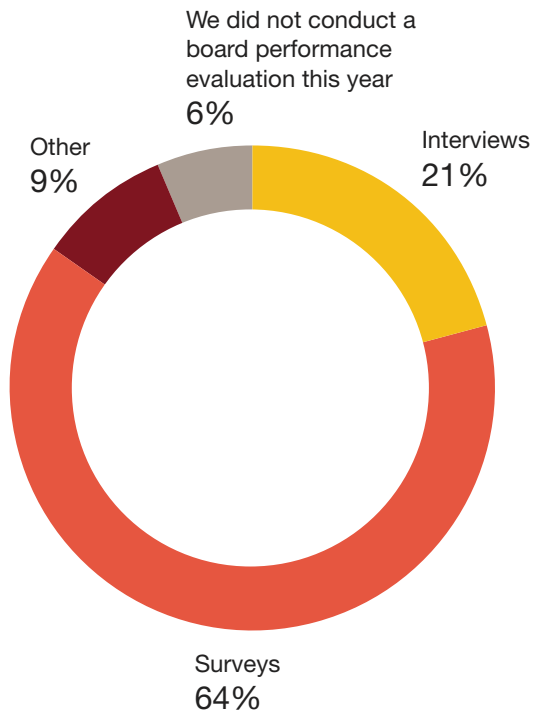
There has also been an increase in information received on employee values/satisfaction. This year, 58% report receiving this information, up from 54% in 2010 and 47% in 2009. While directors believe the scope of employee satisfaction data has improved, its quality has declined.

Information on employee values/satisfaction

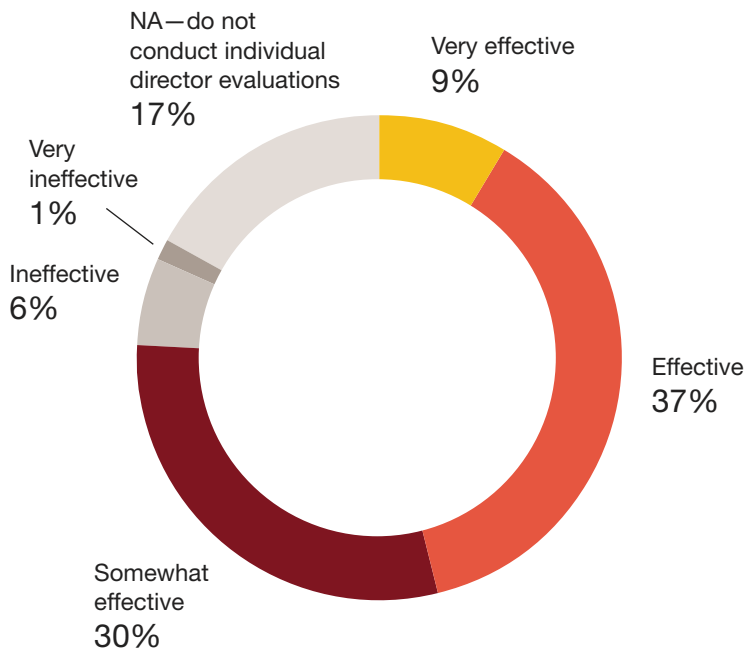


Evaluation process

How did your board conduct the annual board evaluation process this year?

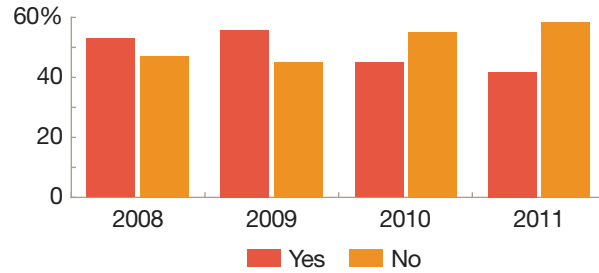


How effective is the evaluation of individual directors?



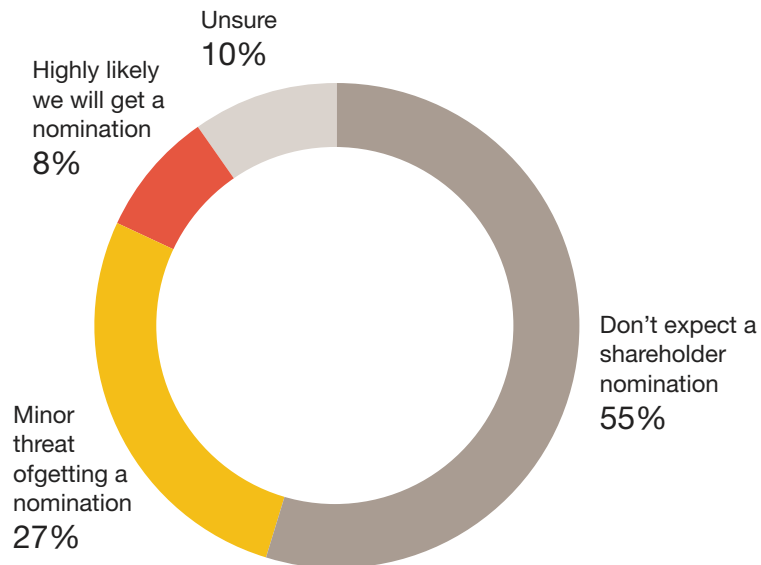
Qualified directors

Do you think there is a shortage of qualified directors for today's companies?



Nominations from proxy access

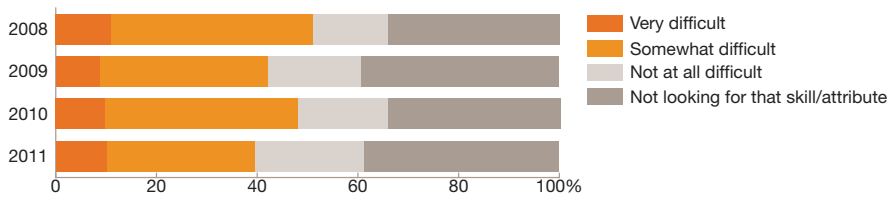
If the proxy access rule takes effect, do you anticipate any board nominations from qualified shareholders?



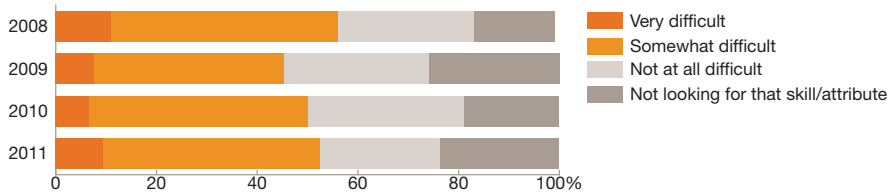
Expertise

How difficult has it been for your board to add directors with the following skill sets/attributes?

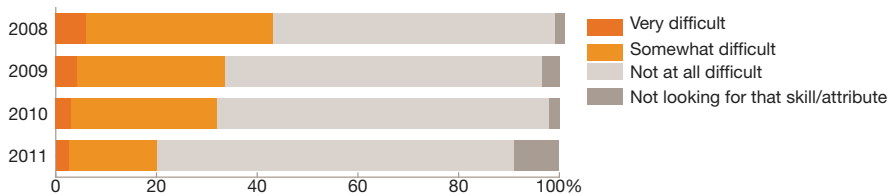
International expertise



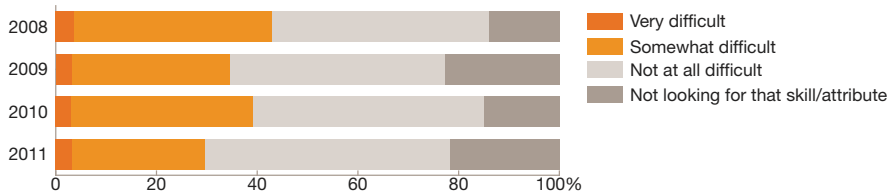
Technology expertise



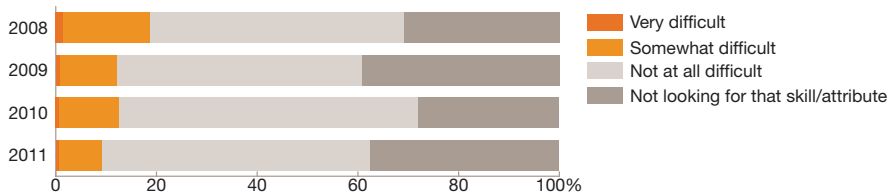
Financial expertise



Marketing expertise

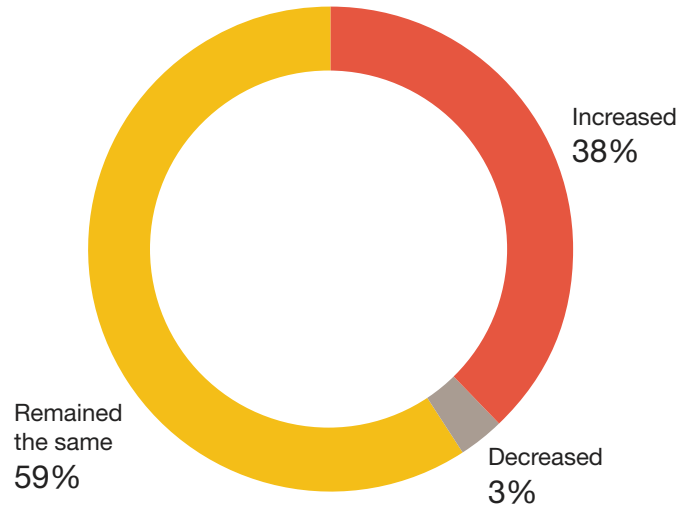


Legal expertise



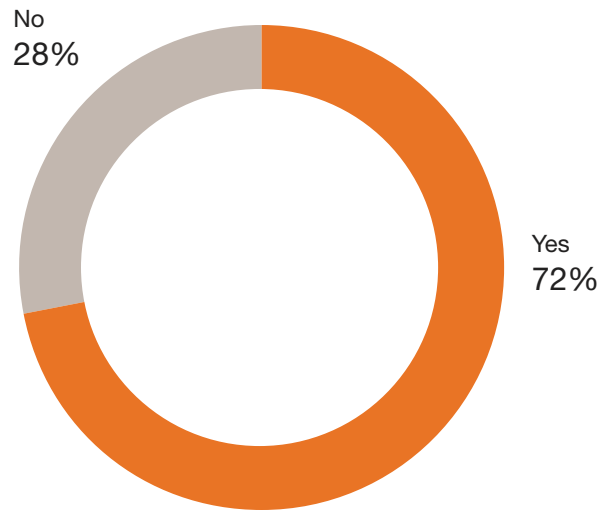
Liability

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



Training

Should all directors be required to attend some board education/training?



***PwC's Center for Board
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To have a deeper discussion on
the results from this survey,
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