

THE SIXTH ANNUAL INSTITUTE ON  
BOARD AND COMMITTEE INDEPENDENCE  
AND EFFECTIVENESS

**Boards at the Center of the Storm**

**Boardroom**  
CONSULTANTS

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*The issues surrounding the board's role in relation to enterprise risk in all its dimensions have been very much in the forefront of the governance dialogue for some time.*

*The question of executive compensation, the challenges facing the Nominating & Governance Committee, the board's role in charting strategy and the increased recognition of the importance of communication with the gamut of stakeholders remain subjects of significant concern for today's directors.*

*The independence and effectiveness of the board hinges on whether individual directors understand the growing complexity of the enterprise and whether they can collectively take ownership of accountability for performance and risk exposure.*

*Working in tandem with the CEO – who is and must remain fully accountable to the board – directors must now, perhaps more than ever before, assure shareholders of the long-term health and viability of the enterprise. This requires an unprecedented investment in director due diligence (something that goes far beyond checking boxes on a governance scorecard) to ensure it has the right processes in place to validate and perpetuate that stewardship contract with shareholders.*

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## OPENING REMARKS

The Sixth Annual Institute on Board/Committee Independence and Effectiveness commenced with opening remarks from **Roger Kenny**, president of Boardroom Consultants.

Kenny said that American boards have been governance trendsetters for the rest of the world, and he pointed to a variety of improvements ushered in to board practices in recent years as examples, among them:

- Over 90 percent of American boards have lead directors.
- American boards have Executive Sessions where independent directors meet alone at least once every board meeting.
- The advent and evolution of the board assessment and its capacity to produce extraordinary results especially when a board is willing to engage in really critical evaluation. Although too many boards are still checking off boxes on governance review forms, the really good boards and the best directors want a more rigorous process and more honest feedback. The board self assessment has been important in helping each board redefine and refocus their unique priorities and their special roles.
- A movement toward performance metrics, not only for the board, but also for the CEO and senior management. Also, more focus on strategic plans and succession planning driven by boards that want leadership selection choices and a strong bench. "I remember when management used to say

we can't afford that kind of bench strength and now boards are saying you can't afford not to have it," Kenny said.

- Board members today want more dialogue with management and management is being more open about wanting more help from their directors. "This is the healthiest thing I believe that has happened to boards," Kenny added. "We call it 'dialogue or die' as a board."

Today, Kenny explained, most Nominating & Governance Committees are leading the search process for new directors, ensuring independence. "They're really our bosses today," he said. "It's no longer the CEOs." But it has gotten extremely difficult for companies to get the directors they need and want. The old search firm model is inadequate.

"Maybe Advisory Boards are one mechanism of getting top-level and global directors," Kenny observed. "Someone who would not be attracted to a public company board could be attracted to an Advisory Board and that's happening more and more now just so companies can have access to the right people and not just rely on its own board."

There are other challenges, as well, some which may have had the effect of weakening today's boards. For example, are the new shareholder advances into director selection and executive compensation further weakening board directors and management? Will directors faced with competition for their role be discouraged

and decide not to join boards, making it even more difficult to attract the right directors?

“Let’s face it, no director wants to go through a beauty contest, competing with individual directors referred by shareholders,” Kenny said.

There is still room for improvement in the way that corporate boards drive succession planning and the search for new leadership, he added. “We also need to find ways to deal forthrightly with dysfunctional directors and to renew the board with new skills.”

## WHAT EXECUTIVE PAY WILL LOOK LIKE IN THE FUTURE

No subject has ignited more heat for boards than ‘Say on Pay.’ But are boards finally getting CEO compensation right? To address that question, Boardroom Consultants invited **David Swinford**, president and CEO of Pearl Meyer & Partners, a leading executive compensation firm, to moderate a panel of directors with an uncommon vision of this controversial topic.

The panel comprised **Ray J. Groves**, retired chairman of Ernst & Young and director with Electronic Data Systems Corporation, Boston Scientific Corporation and COPIC Companies; **Karen N. Horn, Ph.D.**, managing director with Brock Capital Group LLC and director with Eli Lilly and Company, Simon Property Group, Federal National Mortgage Co., and Norfolk Southern Company; and **Raymond S. Troubh**, financial consultant with Raymond Troubh Associates and director with Triarc Companies, Inc., Gentiva Health Services, Inc. and Diamond Offshore Drilling, Inc.

David Swinford opened the session by describing executive compensation as “one of the primary tools that we give the CEO and other team managers of the organization to attract, retain and motivate folks that you need to accomplish the organization’s long-term strategy.”

The critical unanswered question, he added, is whether the Compensation Committee practices and the board’s oversight of the compensation process are evolving at a pace that satisfies the political, economic and other pressures that will continue to set the reform agenda.

Karen Horn opined that board Compensation Committees have come a long way in terms of getting executive compensation right, but she added there is still significant work to be done to achieve a more reasonable balance between CEO pay and performance. She offered nine points of progress, and four elements that still need improving:

### Where Compensation Committees Are Getting It Right

1. Greater independence from management and its advisors
2. Proactive on executive pay issues and designs (i.e.: performance measures/goals)
3. Examining best practices in light of new standards (i.e.: severance fall back)
4. Making CEO pay packages more conservative/balanced, thus more defensible
5. Target pay positioning aligned with relative performance
6. More sensitive to and aware of external criticism and suggestions
7. Recommendations for CEO pay are developed independent of the CEO
8. More balanced views prevailing (i.e.: internal pay equity balancing external competitiveness and the rights of the company balancing rights of the executives)
9. Companies are reducing or eliminating executive perks and other benefits often without offsetting compensation

### Where Compensation Committees Are Getting It Wrong

1. Management still controls the agenda and the process of developing recommendations for the structure and amounts of executive pay
2. Too much emphasis on benchmarking and following the practices of others instead of doing what’s right for your company
3. Willingness to pay for strong performance not equally offset with willingness to reduce pay for weak performance
4. Pay for abject failure remains an unaddressed problem

Ray Groves added that there can be no 'one size fits all' approach to setting executive compensation. "Each company is unique. Each industry is unique. Each competitive group of companies that they compare themselves to or that they're either taking people from or losing people to is different," he reminded. "I wouldn't rely on any single factor on a compensation committee because there are many."

Raymond Troubh said that it's very important that all parties to the compensation review process – from the chairman of the board and the board's Compensation Committee to the CEO and any external pay consultants – understand that the Compensation Committee is indeed the customer and is the sole overseer of the process.

He added that Compensation Committees in the past have been too lenient and have allowed chronically underperforming CEOs in particular to realize their budgeted compensation gains. In the future, Troubh said, Compensation Committees and their advisors will determine "certain mathematical requirements" for CEOs and other C-Suite officers of the corporation to earn more pay. "If you don't make it, you don't get it," he said.

Looking ahead, Troubh contended, the quality of individual directors will have a positive impact on the board's oversight of CEO and executive compensation. "With the emergence of stronger boards and the emergence of a Nominating & Governance Committee which is going to bring better people on board and therefore better members of Compensation Committees, the execution of these models will be superior and everyone will be more satisfied with the results," Troubh predicted.

He also advocated a more frequent rotation of Compensation Committee members and chairmen so they don't stagnate. Of course, he added, this assumes that the board isn't comprised of the sitting CEO's cronies.

Karen Horn said that the Compensation Committee should consider reserving their judgment as one possible action to buy itself the time necessary to make smart compensation decisions. "I think the principle of having judgment involved in compensation is a very important principle. If we're always making judgments that our formulas are wrong then we ought to correct the formulas."

Ray Groves said he expects 'Say on Pay' to be a foregone conclusion, given the current political environment. The bigger issue, he added, is what more will come and/or the danger that may ensue in terms of external micromanaging of the enterprise. If a floor for executive pay is ultimately established by the government, he added, "the piling on [of additional governance restrictions] is really what we have to watch out for."

Horn added her concern that 'Say on Pay' is not a refined communications medium for shareholders to express themselves. "So often," she said, "the votes aren't about pay. So if the shareholders are unhappy with the companies for some other reason – total shareholder return, some environmental reasons, whatever – you get a negative vote on 'Say on Pay' when in fact it isn't about pay at all."

David Swinford extended the scope of the panel discussion by asking whether the level of absolute pay is too high from a societal point of view.

Horn and Groves agreed that there are a number of bad actors and very public examples of executive compensation that are out of line or simply outrageous and which tend to paint all companies and Compensation Committees with the same brush.

Troubh added that "bad cases make bad laws" and that is clearly a threat with a Congress that focuses on headlines made by companies "which have formulaic approaches that provide enormous amounts of money." Further, he noted, "I don't think we're going to have a revolution in this country over the issue of pay."

The potential threat of micromanaging from the outside is also exacerbated by the potential harm that might be done if a board is stacked with too many industry insiders who lack a broader perspective to contribute to a meaningful review of enterprise strategy.

"I personally don't find ex-chief executives or operating chief executives as the best board members in my experience," Troubh pointed out.

Troubh said that Compensation Committees must be mindful that the sitting General Counsel may not be in a position to offer a totally objective opinion when it comes to making recommendations about the equity of his or her boss's compensation. "I think the biggest mistake that

Compensation Committees have made is not hiring an absolute expert outside lawyer to represent them in negotiations of the [CEO] contract.”

“If Compensation Committees elect to compare the pay practices of other companies when setting the remuneration of their own executives, they must also compare the performance of those companies...”

Swinford closed the session by saying if Compensation Committees elect to compare the pay practices of other companies when setting the remuneration of their own executives, they must also compare the performance of those companies to get an accurate read on the effectiveness of that comparison.

### CRISIS AVOIDANCE: HOW BOARDS CAN MITIGATE ENTERPRISE RISK, ENSURE SURVIVAL

To say that boards have been tied closely to the challenges posed by enterprise risk in recent months would be a gross understatement. Consider the risk that U.S. airlines are now forced to confront in the form of skyrocketing fuel costs and the critical nature of managing fuel consumption, which, for one large airline, amounts to a staggering 17,000 gallons of jet fuel every minute of every day, 365 days a year.

The effectiveness of the board and of individual directors, argued **Tyler Mathisen**, managing editor of CNBC business news and the host of “High Net Worth”, who moderated the second session of this Institute, really comes down to how each responds to challenges it can anticipate and potential crises it cannot.

“It’s been obviously a fascinating year in corporate governance,” Mathisen said, pointing to boards such as those at Citi, Chase, Bear Stearns, Countrywide, GM, Ford and Anheuser Busch which have faced considerable challenges. “The issues that you as board members and people who work with boards have had to confront have grown only more complex.”

Mathisen, who was introduced by **Peter Kindler**, a vice chairman at Boardroom Consultants, then turned the

focus of the discussion to a panel comprising **Patricia W. Chadwick**, president of Ravengate Partners LLC and director with Wisconsin Energy Corporation, Amica Mutual Insurance Company and ING Mutual Funds; **W. Ronald Dietz**, president and CEO of W.M. Putnam Company and director with Capital One Financial Corp.; **Thomas Johnson**, former chairman and CEO of GreenPoint Financial Corp. and director with Alleghany Corp., Freddie Mac, Phoenix Companies and R.R. Donnelly; and **Jules B. Kroll**, former executive chairman of the board of Kroll, Inc.

Seizing on recent headlines that have put the media focus—and considerable shareholder pressure along with it—on the governance of financial services companies, Mathisen opened the discussion by inquiring about the unique challenges faced by those companies.

Ron Dietz explained that financial services companies are typically far more leveraged than other organizations, dependent therefore, on maintaining the confidence of the debt market for their viability. A second distinction is the role of the regulators and the dramatic impact they can have on a financial institution’s welfare at given points in time “if, in fact, you invite their remedial attention.”

Patricia Chadwick said another risk lies in the complexity of financial instruments that some companies have created to help such institutions finance themselves. Because these instruments are so complex, she said, few people outside the ones who created them are truly able to understand them. “I think that’s where boards can get into trouble because I don’t think lack of knowledge or lack of understanding is an excuse anymore,” Chadwick said.

For his part, Tom Johnson raised the specter of a larger failing of some financial institutions’ leadership, and that was, in some cases, “a failure on the part of management and the board to understand reputational risk.” The antidote, he said, is to ask enough questions until you get sensible answers. “And if you never get sensible answers, you’ve got a real problem,” Johnson said.

Jules Kroll reiterated the importance of understanding reputational risk. “Once your reputation begins to have cracks in the wall, then any institution is vulnerable—but none of them more vulnerable than a financial institution,” he said.

Dietz added that his own interactions with peers in the financial services industry have revealed some significant obstacles to monitoring and managing some areas of enterprise risk.

“Many Audit Committee chairs have expressed discomfort about how to manage risk, especially the more subjective areas of reputational risk, strategy risk, etc. Questions include: where within the board and within management should oversight be domiciled; how are risks identified and measured?” Dietz said. “Discomfort tends to motivate the backing away from active risk management. But the subjective risks are often the important risks that can have huge negative impact on the whole enterprise if they aren’t managed effectively.”

Johnson said that boards have more of a responsibility to examine 1,000-year flood kinds of scenarios. “You ought to be wary of things that could never happen,” he said, as well as trends that people think “are going to keep going forever.” Given what was said previously about the challenges facing the airline industry, he added, “You know somebody, inevitably...is going to do a massive hedge of fuel costs at precisely the wrong moment. Count on it.”

But Kroll observed that directors needn’t look for long-odds scenarios that could bring a company – and its management – crashing down. “You want to start with the things that are most likely to occur, and if they were to occur, what the impact of those would be,” he said.

Kroll argued that boards need more independent help to assess the complexity of financing instruments. “I would argue for some professional support that is independent of the management of a company,” to truly assess the risk involved, he stated.

Chadwick explained that part of the problem is that companies and management have been forced into managing the enterprise, and its reputation, based on quarterly earnings reports rather than on long-term investors’ best interests. “Boards and management have been forced into this position where they’re managing the company for the short term rather than the long term and I think that leads to these kinds of [crises].”

Some investors’ short-term orientation has had the effect of pressuring management into producing short-term results, as opposed to the kind of long-range view

promoted by Warren Buffett. “Most people are governed by what their performance is going to look like one day out of 90 days and that’s all that they are governed by,” Johnson said. “And that’s the biggest single evil it seems to me in American business...”

Dietz acknowledged the pressures facing corporate leadership, but also pointed out that the experience of the last year has demonstrated that some companies have shown a much better ability to identify and react to important strategic and market risks than others. “There has been a performance difference that, in some cases, has made all the difference.”

“You look at the companies that have gone down and you tell me if that was really an independent board...”

Kroll agreed. “You look at the companies that have gone down and you tell me if that was really an independent board...Look at the companies that have failed and do your diagnosis of who was on that board and what the interrelationships were,” he said.

One audience member asked: If, as the prior panel discussion surfaced, the board should not be made up of experts from the same industry, and given that boards must assess risk and companies must continue to assume some risk to grow, what mechanisms might the board use to manage those risks and get the advice they need?

Ron Dietz replied that having a Chief Risk Officer who is accountable to the board as he is to management is one potential tool for risk assessment. Another tool is to develop a list of the Top 10 risks facing the enterprise. “When we did that” he said, “we were impressed that eight of them were not the normal risks, like credit, treasury and financial control that receive the most management and board attention. That realization led to a different risk management agenda than we would have had otherwise.”

“If you make your lists of risk,” Kroll added, “you need to look at your treasury function and see...where they’re putting their money. And I’ve spoken rather publically on this issue. But now that I’m retired as of this week, I’ll become more public about it. If you look at the amount of derivative instruments that we have in the world that are out there, we really need to look at the risks from an enterprise

point of view. It doesn't just apply to financial institutions. And the numbers are really scary. They are multiples of what the GDP of this country is. And we need to focus on those—risk number one.”

## TAKING THE NOMINATING & GOVERNANCE COMMITTEE TO THE NEXT LEVEL

The board's Nominating & Governance Committee has morphed from the committee that nobody wanted to sit on—because it didn't do anything—to the committee that in many ways is situated in the eye of the storm. With responsibility to recruit outstanding directors and to manage the structure of the board as well as to staff other committees and assess board effectiveness, the Nominating & Governance Committee is most responsible for ensuring the board has the right leadership.

Boardroom Consultants' president, **Roger Kenny**, moderated the session exploring ways to take the Nominating & Governance Committee to the next level. He was joined by a panel comprising **John Biggs**, former chairman and CEO of TIAA-CREF and director of The Boeing Company; **Professor Charles Elson**, chair of the Weinberg Center for Corporate Governance at the University of Delaware; **John A. “Jack” Krol**, former chairman and CEO of E.I. Dupont de Nemours & Co. and director of Tyco International, ACE Limited, MeadWestvaco Corp. and member of the Advisory Board of Bethel Corp.; and **Steve Norman**, Secretary & Corporate Governance Officer with the American Express Company.

Before engaging with the panel, Roger Kenny read the comments of **Rear Admiral Marsha J. “Marty” Evans**, former president and CEO of the American Red Cross and director of Lehman Brothers Holdings Inc., Office Depot, Weight Watchers International and Huntsman Corporation, into the record, as she was unable to attend.

“My main observation is good boards don't magically become better boards,” Evans offered. “It takes leadership, it takes commitment, plus a willingness to engage in critical”—and she emphasized—“really critical self evaluation, more than the pro forma self evaluation we all do for every board.”

She added: “It also helps, I believe, if there's an institutionalized sense that every member of the board

needs periodic education which might be in the form of peer exchanges. And I have learned so much from my peers who have been so generous and willing to share their experiences, which frankly seems to be one of the real attractive points of joining a board today, just to learn from your peers.”

Accentuating the important focus on board evaluation, Roger Kenny invoked the words of Cynthia Montgomery, head of the Nominating & Governance Committee of Newell Rubbermaid, who called on Boardroom Consultants to do an assessment with these words: “This is a good board. But we want to become a better board.”

Charles Elson kicked-off the discussion from there by reciting the words of Raymond Troubh, a panelist during an earlier session on this Institute program, who once said that there were independent directors as early as the 1970s. “It was always possible to act independently,” Elson recalled Troubh saying. “You said, ‘The only problem was you could only do it once—because you didn't get asked back.’”

One watershed moment came in the mid-1990s, Elson recalled, when the National Association of Corporate Directors recommended that a majority of directors should be independent of management and appointed by an independent Nominating & Governance Committee.

Fast-forward to 2008 and Nominating & Governance Committees, Elson contends, “find themselves now in the center of relationships with the largest investors in the company and obviously in the repopulation of the board and the creating the rules of the road for the board.”

The role of the Nominating & Governance Committee member will only become more interesting and more critical given the rise of hedge funds and the promotion of director candidates by institutional shareholders. This will invariably lead to some contentious battles for the future control of the board.

“What happens when a large shareholder comes to you with a candidate who, you know, may be representing their interest but may not represent everyone's interest?” Elson asked. “The director has the obligation not to represent simply the party who brought them to the table but all the shareholders. And so where you've particularly seen the governance concern years ago with being a counter force to the CEO, you're now seeing it begin to emerge as the potential counter force to an over-reaching large shareholder.”

Elson continued: "That is going to be for the Nominating & Governance Committee, in my view, some really interesting [business] over the next couple of years and how we react and what we do. To me, it's critical for the committee itself to remain independent and [for the committee to] continue to bring on to the board independent directors representing all these points."

Jack Krol revisited the work of the Blue Ribbon Commission mobilized by the National Association of Corporate Directors and in which he and Elson sat with some other directors last year. Its report established consensus on the role of the modern day Nominating & Governance Committee and the modern day director.

"Governance, as defined by Delaware law, is having a series of policies, processes and procedures in place by which the board can direct and control a company. The Governance Committee should ensure these are in place and effective, considering the specific company. Secondly, the committee should make operational recommendations for the board to maximize its added value to growing the company successfully for the long term."

"Further," Krol offered, "the Governance Committee should ensure effective evaluations of the board's performance and individual directors' performance, again, to ensure they are adding value to successfully growing the company."

Krol went on to say that, "part of this exercise should be to keep an evergreen list of the board's needs compared to the backgrounds of current directors. And, then fill these needs as new directors are recruited."

Steve Norman said the function and caliber of the Nominating & Governance Committee is really an extension of the full board. "There has definitely been an evolution and it is now one of the pivotal committees. I don't want to rank its worth versus the Audit Committee, say, or the Compensation Committee, but it has now reached 'varsity status,'" he observed.

The biggest barrier to director effectiveness is how quickly they can be oriented and how quickly they can understand the facts and realities of your complicated business, Norman said. American Express found that the old way of simply assigning a new director to the Audit Committee or encouraging them to be attentive at all meetings is way too slow.

To accelerate each director's time to contribution, Norman said, his company asks new directors to report two hours early on board meeting day so they can run through two, one-hour meetings with key business leaders, from the CFO to the Chief Legal Officer, to understand risks and threats to Government Affairs or Public Affairs. This approach has reduced each new director's learning curve. Another positive step has been the evaluation process, although that has raised concern about the potential bias of an internally controlled evaluation.

"Even now one must reflect whether—because that process is internal and there is sort of peer pressure in the review of it—if it might be best done outside of the management and Nominating Committee," Norman shared. "So we are looking at that, but evaluation is a key temperature taking on a periodic basis to let you know, for example, if the things that wreck a board are surfacing. And the things that wreck a board in our experience can be a bully or a dominant director or directors who just aren't prepared. They're over their head; they're overwhelmed by the complexity of the financial statement. So evaluation will surface [those threats]."

All of this has helped carry the American Express board to the fundamental question that all good directors and boards must regularly ask themselves, and that is, "Are we getting the information and the resources we need to effectively oversee this corporation?"

Norman adds, "Those are some of the things that we are wrestling with as our Nominating Committee muscles up for the tasks ahead."

It's clear, the number one job of the chairman is to create a "great board, to assemble a board, to find the right people for that board," Biggs said. "I think if we are going to keep our model of combining the chairman and the CEO role in the U.S., we've got to be sure that the board does that, not the chairman and CEO. And I think we appear to be there—if you look at the duties of the Nominating & Governance Committee — it's clear that that's their job."

But if one were to trace the origins of many new board appointments, Biggs added, one would find that there's often a tie to the chairman. "I think that Nominating Committees have to tell the chairman we're going to have a process by which we winnow members. I don't think we have to be stupid about it and say the chairman can't even suggest a name or give an evaluation of the person or a

comment,” Biggs elaborated. “But it’s really got to come from the Nominating & Governance Committee.”

In the end, it’s a matter of taking director sourcing and appointments out of the CEO’s hands. And that, according to Jack Krol, reinforces the notion that “the center of gravity is going to move to the Nominating & Governance Committee.” Krol said he agrees with the installation of a mandatory retirement age. “The simple reason,” he said, is “that you have to keep renewing boards.”

That includes responsibility for the engagement of executive search firms and the decision metrics the board plans to use to make its leadership selection decisions. “The board has to decide that there’s certain non-negotiable criteria for every assignment,” Roger Kenny interjected. “And that should include diversity on every slate no matter what the non-negotiable requirement is,” he added.

John Biggs said the field of board director candidates is indeed beginning to open up because we are finding it hard to get people who will serve on audit committees. “We’re beginning to look at CFOs, we’re beginning to look at former audit partners, and their firms. And we’re really changing the characters of boards so they’re no longer top management people,” he said. “And I think that is going to be helpful in opening up wider lists of minorities and women to come on board...You’ve got to have a company commitment to diversity to get the job done.”

## INSTITUTE HONOREE PERSPECTIVES: WHAT MAKES GREAT DIRECTORS GREAT

Boardroom Consultants presented its annual Award for Outstanding Directorship to **Robert E. Weissman**, former CEO of Dun & Bradstreet, former chairman and CEO of IMS Health and Lead Director of State Street Bank, Pitney Bowes and Cognizant Technology Solutions Corporation.

Weissman, who has served on 11 public company boards over the past 38 years, was feted by three business executives who’ve experienced firsthand the value and perspective that he has brought to improve their companies’ boards. **Michael J. Critelli**, executive chairman of Pitney Bowes, Inc. and director with Eaton Corporation and Wyeth, described Weissman as “the gold standard” when it comes to great directors.

“The great director, the gold standard, is one who keeps fellow board members and management focused on what shareholder value delivery truly means for that company. Bob, as a regular board member, a lead director and chairman of our Governance Committee, has kept us focused on defining and redefining what shareholder value delivery means for us,” Critelli said.

**Michael P. Connors**, chairman and CEO of Information Services Group, Inc. and director of R.H. Donnelly Corporation and Eastman Chemical Co. also offered testimony about Weissman’s influence on his company’s operations.

“Bob’s presence on our board has given us great credibility with our investors, and more importantly, he is an incredible source of wisdom and of guidance to myself and our entire team,” Connors said. “Indeed, in July of 2006 when we launched our company, Bob was asking us to think about and prepare for certain aggressive hedge fund tactics which the hedge funds themselves did not even think about until a year later.”

**Joseph “Jay” Hooley**, president and COO of State Street Corporation, thanked Weissman for his 19 years of service on the company’s board, including stints as chairman of both its Nominating Committee and Executive Compensation Committee, and also as Lead Director.

“Bob’s ability to embrace change and use it as a platform for innovation and productivity has been a hugely positive force for State Street,” Hooley said. “He is fluent around technology, he’s very deep around financial services and he’s a serial entrepreneur not only in his business life but in his personal life.”

Hooley continued: “I think the most telling thing about Bob is that his determination to do what’s right always comes through...Bob articulated the philosophy that he’s demonstrated throughout his time on our board in an interview that he gave about three years ago to his alma mater, Babson College, where he also served on the Board of Trustees. He said, ‘Success is the result of doing the right things and doing things right. Effective leadership is about persuading people in the organization to do the right thing. It’s a never-ending process.’”

Weissman then took the podium and reflected on the “rather stunning” changes he has witnessed in the boardroom over the course of nearly 40 years as a public company director.

“I’ve witnessed the rise and the decline of the era of the imperial CEO, the transformation of public equity markets from investing markets to largely trading markets, which has brought a little bit of pressure on both management and boards to focus, sometimes exclusively, on short-term value enhancement, the creation of Sarbanes and the resulting redirection of management and board attention to risk minimization,” he recalled.

“Now, 38 years later, the job is more complex, it demands more of our time as directors, and the personal risks are greater both financially and reputationally.”

But for those who believe the governance structures employed by American public companies are central to the operation of these companies and who want to make those companies stronger, the essential responsibilities of a director remain constant.

“Throughout that time and today,” Weissman said, “the mission of every director, the prime directive, if you will, has remained the same. It is to do everything possible to ensure the continuing success of the enterprise over the long term.”

Fulfilling that mission requires unrelenting focus on five areas of corporate activity.

First and arguably the most important, is the creation and maintenance of an effective program of management development and succession. “Today, too many boards talk through the ‘hit-by-a-bus’ scenario and think they have completed the job in this area. They have not,” Weissman said. “An effective management development program requires a continuing rigorous involvement by the board, interacting with management, and, in effect, co-owning the responsibility for a skilled, deep bench.”

He continued: “Second, the development of a partnership with management and the creation of a dynamic strategic planning, or perhaps, more accurately, strategic re-planning process, which recognizes that a regular evolution of strategic perspective and a constantly evolving response is valuable in ways that a static, strategic plan never can be.”

The third element is oversight of compliance. “We live in a world where the burden of regulatory compliance and the cost to the company and to the directors of noncompliance mandates that directors maintain an effective process for ensuring a high level of corporate performance in that area,” Weissman advised.

A regular review of operational performance is the fourth area of desirable director due diligence. “This is an area where what I’ll call the maintenance of a proper altitude is all-important. Management needs the discipline of responding to incisive questioning about decision processes and the results in the operational area. By asking the tough questions, directors drive managers to do a disciplined job.”

What management does not need, he added, is a board that directly inserts itself into the regular decisions that are made in the ordinary running of the business—in other words, flying at too low an altitude. This, Weissman said, threatens to undercut management authority and can potentially demotivate the organization.

“If a board feels that it must operate at that level to ensure good quality decision making,” Weissman stated, “they should [then] focus on replacing management with a more competent group.”

The fifth mandate for effective board stewardship of the enterprise is to keep a real focus on board development and renewal. “The key elements in this area are assessing board performance at both the group and individual level, and interacting regularly with management below the CEO and COO levels because effective management development and succession planning are only possible if the board knows management much more intimately than they ever can at the resume level,” Weissman said.

“the mission of every director... has remained the same. It is to do everything possible to ensure the continuing success of the enterprise over the long term.”

## THE STRATEGIC DILEMMA: ASSESSING THE BOARD'S ROLE IN CHARTING STRATEGY

Boards must be careful not to overstep management's role in charting organizational strategy. Yet, improbably, many board directors do not understand their company's strategic direction. Success, it appears, rests on an ability to balance the roles of management and the board to achieve the right strategy. Yet the question remains: To what extent should directors engage in strategic planning?

That question was discussed by a panel of directors moderated by **Kimberly Bishop**, vice chairman of Boardroom Consultants. She led a discussion featuring panelists **Robert Holland**, general partner with CSW Private Equity and director of Lexmark International, Inc., Carver Bancorp Inc., YUM! Brands, Inc. and Neptune Orient Lines Limited; **Edward A. Kangas**, chairman of Tenet Healthcare and director of Electronic Data Systems Corp., Eclipsys Corp., Hovnanian Enterprises, Inc. and Intuit, Inc.; and **Denise Harrison**, vice president with the Center for Simplified Strategic Planning.

Harrison opened the dialogue with the key objective of strategic planning: identifying the sound course and direction for the organization that optimizes its future potential. Setting the strategy is the responsibility of the senior management team—the team is responsible for the success or failure of the strategy. The board plays an important role during several steps of the strategic planning process, including guidance upfront, a review after the strategy development and monitoring progress during the year.

Kangas said his strategic focus is quite often on the implementation side of corporate strategy. And in order to assess where the real needs and potential pitfalls are, he added, a director must be prepared to talk to the people responsible for making it happen.

"You do need to spend time inside the company from time to time, whether it's going a day early, having a phone call and doing those things you have to [in order to] get to know the operating people and the sales people," Kangas said. "The sales and the marketing people are often the best judge of what's going on in the industry, what's happening to the space and what's happening to the offerings your company has got." Customers can also help inform the director's view, he added.

The key, Kangas said, is for the director to engage with these people in a spirit of inquiry and self-education as opposed to a direct and unequivocal leadership role. He added that it's essential that directors play a role in framing a start point from which to measure the return on new strategy.

"Ask what are the strategic alternatives, whether it'd be acquisition, whether it'd be internal development. What are the major four, five, six strategic alternatives that are available? And then, fairly early in the process, I think it really helps to have the management—with the help of the CFO and others—develop a financial model that allows you to see the base case for three, four, five years," Kangas explained.

Generally, Holland said, far too many boards get engaged in strategy only when the senior management team will schedule a review session and sit the board down to present its strategy. Typically, such a session will review how they got there, the factors management considered and what they threw out.

"I would offer that that's too late for a director to get involved in the strategic planning process," Holland opined. "Your ultimate objective is to approve strategy but it's also to be a sanity check for the process, to ensure that strategy stays on track over time and to ensure that it's relevant to the best long-term interest of shareholders."

"If you wait until the strategy is done," Holland pointed out, "then the most you can do is challenge something that management has already agreed that it wants to do, which is why I think it's very important to get engaged in the planning process, not to get engaged in evaluating a strategic plan that's already been laid out."

Directors who sit on more than one board can, in a review of corporate strategy process, bring perspective and best practices revealed through their directorship with other companies. "In effect," Holland explained, "you become the source of governance best practices as it relates to the board's role on strategy."

Holland suggested that boards create a Strategic Planning Committee to review critical business options and direction in part because of the time commitment required to be an effective judge of organizational strategy. But Kangas countered that none of the boards he has ever served on has had a Strategy Committee and that such concerns have, in

the past, been addressed through the formation of an ad hoc committee to review strategic options.

Kangas also said that strategic performance should be measured against the interests of what he described as the “easiest surrogate” of strategy return-on-investment, and that is, he said, “the long-term shareholder.”

Holland added that one constant boards can and should now factor into their strategic discussions is an allowance for near-constant change and external pressure. “Turbulence is the new norm,” he said.

## WHY COMMUNICATIONS ARE INCREASINGLY AT THE CENTER OF HOW BOARDS FUNCTION

Shareholder activist groups of all varieties have proven highly skillful in using the media to bring pressure on boards and management. So how can boards reclaim their voice to influence the external messaging of key governance initiatives?

To tackle this timely topic, moderator **William J. Holstein**, a business journalist and author of a new book, *Manage the Media: Don't Let the Media Manage You*, led a discussion featuring the perspectives of panelists **John J. Castellani**, president of The Business Roundtable; **Holly J. Gregory**, partner with Weil, Gotshal & Manges; and **Cheryl W. Gris **, director of MetLife, Inc., Pall Corporation and Pulte Homes.

Castellani said that there has been little recognition in the media and among shareholder activist groups of the significant changes in recent years in how boards do business. And in rather stark commentary, he questioned whether the agendas promoted by some shareholder activists and lawmakers are accurately informed about governance structure, practice and reform.

“I would say fundamentally as boards of directors and individually as boards, most of the most important constituencies that are going to affect your future have no idea of what you do and if they think they know what you do, they’ve got the wrong knowledge,” Castellani said.

Gregory said: “Boards usually delegate to the CEO and management team the task of communicating on behalf of the company and retain oversight obligations. Therefore, the board needs to understand communication strategy and

whether it is effective. We’re also beginning to see more instances of boards recognizing circumstances in which they, themselves, need to take control of communication.” She added that the circumstances in which boards decide to become more involved usually involves areas of inherent managerial conflicts, such as compensation.

Gris  reminded the Institute audience that when you’re explaining, you’re losing, and that boards would be well served to go on offense “when you can do that” to help get its message across accurately and effectively to shareholders and others.

To be more proactive from a communications standpoint, she said, “I think a board and a senior management team need to stay very attuned to what’s going on in the area of corporate governance, what the trends are. Don’t wait until you get that shareholder proposal to start thinking about it or until the activist group approaches you,” she advised.

Gris  said it’s pivotal that boards communicate through the management team to influential shareholders who tend to be more passive but who might have significant leverage to defuse conflict. It’s also wise to plot an offensive communication plan so the board and management have a head start in terms of addressing any new shareholder proposals that might generate interest from the media, shareholders and employees.

Castellani said that one of the prime challenges facing boards—especially during times of turbulence—is to demonstrate that they comprise capable, functioning collections of women and men who can best represent the shareholders’ interest. It is not the director’s role to become a spokesperson for the strategic direction of the company, he added, but rather, to be effective at getting the message out that the company is in good hands.

Gris  closed the discussion by saying the bar has been raised on the communications front and that boards need to get out in front of the communications stream. “I think the days of governance behind closed doors are over, and that we as directors had better figure out how to shed some more transparency on the governance of those organizations that we serve as directors because if we don’t, someone else is going to do that for us and fast,” she said.

## CLOSING THOUGHTS FROM BOARDROOM CONSULTANTS

The theme for Boardroom Consultants' sixth annual Institute program was 'Boards at the Center of the Storm,' and the firm's vice chairman, **Jon Stroup**, reminded the audience of the words of long-time director Robert Holland, who said that "turbulence is the new norm." If you like stormy weather, Stroup observed, "in his view, it's going to be with us for quite a while."

In reviewing the commentary offered by the full range of panel moderators, director speakers, invited guests, audience members and absent testimonial messengers, Stroup highlighted the following as ranking among the key takeaways from the Institute program:

Many prominent 'Say on Pay' campaigns aren't really about executive compensation at all but rather about a panoply of other company issues. Although spurred by shareholder activists, many reform proposals are advanced on the coattails of 'Say on Pay' because it has proven an effective vehicle to press the board on a range of other concerns.

The best means to get an effective executive compensation program in place is to have better, stronger and more independent directors who are less under the influence of CEO. Cronies of the CEO shouldn't be on the board, nor should any party with a radical, perhaps narrow self-interested agenda because of their potential to serve as a disruptive force in the other direction.

Boards must move beyond addressing the 'hit-by-a-bus' scenario and thinking they've completed a rigorous review of succession planning options. In the words of Institute honoree Robert E. Weissman: "An effective management development program requires a continuing rigorous involvement by the board, interacting with the management, and, in effect, co-owning the responsibility for a skilled, deep bench."

Executive pay levels can become inflated when a company has to repeatedly search outside to engage in senior-management succession. A good executive development, internal promotion and succession program will help wean many corporations from costly (and risky) overdependence on external executive talent.

Directors these days are highly challenged in some companies to evaluate certain highly technical risk areas, whether it's financial, scientific, maybe even political or geographic in nature. And, in fact, they may need more professional support from sources independent of management to get a good grasp of those risks.

Over time, boards and directors have gained significant independence from the chairman and the CEO. But there's a new influence on good governance and that is the shareholder activist trying to influence who the Nominating & Governance Committee puts up and who becomes the next director as boards go forward.

Having a strong independent and diverse board offers the best assessment of risk exposure, strategic options, communications planning, sensible compensation planning and a host of other challenges.

There seems to be an overarching need for boards to be much more self critical. This takes leadership, it takes commitment and a willingness to engage in self evaluation.

The notion to which Boardroom Consultants is committed, of building better boards, bringing in good outside talent, and having strong, independent directors really works, and it applies across most of the themes raised and discussed during this sixth annual Institute program.

## ABOUT THE SPEAKERS

**John H. Biggs**, Former Chairman & CEO – TIAA-CREF,  
Director – The Boeing Company

**Kimberly Bishop**, Vice Chairman – Boardroom Consultants

**John J. Castellani**, President – Business Roundtable

**Patricia W. Chadwick**, President – Ravengate Partners LLC,  
Director – Wisconsin Energy Corporation,  
Amica Mutual Insurance Co., ING Mutual Funds

**Michael P. Connors**, Chairman & CEO – Information  
Services Group, Inc., Director – R.H. Donnelley  
Corporation, Eastman Chemical Co., Dex Media, Inc.

**Michael J. Critelli**, Executive Chairman – Pitney Bowes, Inc.,  
Director – Eaton Corporation, Wyeth

**W. Ronald Dietz**, President & CEO – W.M. Putnam  
Company, Director – Capital One Financial Corporation

**Prof. Charles M. Elson**, Chair – Weinberg Center for  
Corporate Governance, University of Delaware

**Marsha J. (Marty) Evans**, Former President & CEO –  
American Red Cross, Director – Lehman Brothers  
Holdings Inc., Office Depot, Weight Watchers  
International, Huntsman Corporation

**Holly J. Gregory**, Partner – Weil, Gotshal & Manges

**Cheryl W. Grisé**, Director – MetLife Inc., Pall Corporation,  
Pulte Homes

**Ray J. Groves**, Former Chairman – Ernst & Young,  
Director – Electronic Data Systems Corporation, Boston  
Scientific Corporation, COPIC Companies

**Denise Harrison**, Vice President – Center for Simplified  
Strategic Planning

**Robert Holland**, General Partner – CSW Private Equity,  
Director – Lexmark International, Inc., The MONY  
Group, Inc., Carver Bancorp Inc., YUM! Brands, Inc.,  
Neptune Orient Lines Limited

**William J. Holstein**, Business Journalist & Author of a new  
book: *Manage the Media: Don't Let the Media Manage You*

**Joseph (Jay) L. Hooley**, President & COO – State Street  
Corp.

**Karen N. Horn**, Managing Director – Brock Capital Group  
LLC, Director – Eli Lilly and Company,  
Simon Property Group, Federal National Mortgage Co.,  
Norfolk Southern Corp.

**Thomas S. Johnson**, Former Chairman & CEO – GreenPoint  
Financial Corp., Director – Alleghany Corp.,  
Freddie Mac, Phoenix Companies, R. R. Donnelley

**Edward A. Kangas**, Chairman – Tenet Healthcare,  
Director – Electronic Data Systems Corp., Eclipsys Corp.,  
Hovnanian Enterprises, Inc., Intuit Inc.

**Roger M. Kenny**, President – Boardroom Consultants

**Peter A. Kindler**, Vice Chairman – Boardroom Consultants

**John A. (Jack) Krol**, Former Chairman & CEO – E.I. DuPont  
de Nemours & Co. Director – Tyco International, ACE  
Limited, MeadWestvaco Corp.

**Jules B. Kroll**, Former Executive Chairman of the Board –  
Kroll, Inc.

**Tyler Mathisen**, CNBC Managing Editor & Host of  
“High Net Worth”

**Stephen P. Norman**, Secretary & Corporate Governance  
Officer – American Express Company

**Jonathan C. Stroup**, Vice Chairman – Boardroom  
Consultants

**David Swinford**, President & CEO – Pearl Meyer & Partners

**Raymond S. Trough**, Financial Consultant – Raymond  
Trough Associates, Director – Triarc Companies, Inc.,  
Gentiva Health Services, Inc., Diamond Offshore Drilling,  
Inc.

**Robert E. Weissman**, Former CEO – Dun & Bradstreet,  
Former Chairman & CEO – IMS Health,  
Lead Director – State Street Bank, Pitney Bowes,  
Cognizant Technology Solutions Corporation

# Boardroom CONSULTANTS

## ABOUT BOARDROOM CONSULTANTS

Boardroom Consultants is the first firm to specialize exclusively in director recruitment and board services with close to 400 successful director placements, numerous board assessments and governance consulting assignments for leading business organizations.

Boardroom Consultants draws on the collective knowledge of an Advisory Board composed of former chief executives and business leaders with significant board experience to provide consultative services important to superior board performance. As trusted advisors to clients, Boardroom Consultants provides discreet, objective board assessments, succession planning and other services that make boards valuable assets.

Boardroom Consultants supplements its extensive experience and unmatched expertise in building high-performing boards with the research and support resources available from Slayton Search Partners, a respected and fast growing leader in retained executive search.

Boardroom Consultants and Slayton Search Partners share a common commitment to provide a wider pool of exceptional candidates, for the boardroom and the executive suite, typically a multiple of what the large firms can deliver.

This distinctive approach enables Boardroom Consultants and Slayton Search Partners to make the search experience a limit-less® opportunity for building exceptional leadership for both boards and management. We believe it's the right model for the future.

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