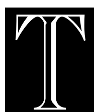

his annual gathering provides an interactive forum for business leaders from around the world to share critical thinking, best practices and observations on changes in the advancement of leadership and governance. This year, 80-plus directors convened at the New York offices of TIAA-CREF, one of the nation's largest institutional investor and pension firms to discuss what's working and what's not. The theme focused on ethics and its impact on communication between senior leadership and the organization, in determining the agendas of each of the three independent committees, and in defining the relationship between directors and management.

A NEW ENVIRONMENT EMERGES

It's almost hard to imagine, but less than 20 years ago these sound business practices did not exist: regular board assessments; fully involved nominating committees; more frequent, in-depth committee meetings; executive sessions; comprehensive CEO evaluations; lead directors; pay-for-performance; and governance officers.

"Recent developments have led to a whole host of new realities," surmised Roger Kenny, Managing Partner of Boardroom Consultants, in setting the stage for *The Third Annual Institute on Board/Committee Independence and Effectiveness.* "Today we have the opportunity to hear from each other about how we are learning to navigate these new waters."

Business Roundtable President, John Castellani, bolstered Mr. Kenny's opening remarks with statistics from the organization's latest survey on corporate governance. The survey was sent to 160 of the largest companies in the US and found that 93% have adopted standards of board independence that meet or exceed NYSE listing standards. "This is a substantial increase over the last three years," noted Mr. Castellani. He also reported statistical rises in the number of executive sessions held per year at board meetings, and the percentage of companies that have established new procedures for direct shareholder communications.

"Collectively, the companies we surveyed have taken unprecedented steps over the last several years to improve their corporate governance," concluded Mr. Castellani. Taken in combination with increased shareholder resolutions and campaigns to withhold votes for individual board members and continuing changes in Washington, including new leadership at the SEC, "we have a very, very dynamic environment," he said.

Mr. Castellani issued a cautionary note as well. "We have to ask ourselves how these changes will affect how boards function in the future. Will members of boards change from business visionaries to compliance officers? We stand at a crossroads of redefining the governance of corporations. We must take care not to be misguided by non-germane issues that are nevertheless politically charged and focus on changes that are really in the interests of all shareholders."

A PASSION FOR INTEGRITY

Honoring John A. Krol

This year, *The Institute* recognized the exemplary business contributions of John A. "Jack" Krol, a lead director for Tyco International and former CEO of E.I. du Pont de Nemours.

In honoring Mr. Krol, Roger Kenny quoted Tyco's Chairman and CEO, Ed Breen: "Jack's commitment to governance and

integrity is second to none, and through his actions and his tone he has set an example for our board, our senior leadership team and our employees around the world."

Indeed, Mr. Krol has been publicly credited with helping to transform Tyco International over the last three years from a troubled holding company to a true operating company with state-of-the-art governance.

In his keynote remarks, Mr. Krol emphasized his passion for integrity. "We're all struggling in the corporate world with how to put in place Sarbanes-Oxley processes and procedures, and how to instill ethics. If we look back and examine the fundamental flaw that led to the corporate failures we've had over the last few years, the common denominator is a breakdown in integrity of the people who ran those corporations."

"We have to ask ourselves how these changes will affect how boards function in the future. Will members of boards change from business visionaries to compliance officers?" – John Castellani, President - Business Roundtable

Mr. Krol attributed his own strong work ethic to various mentors throughout his life, including an industrious grandfather who came to America and built a successful business of his own; a Naval admiral who insisted that everyone "do the right thing"; and corporate values that were non-negotiable at the companies in which he worked, including DuPont.

Mr. Krol called on conference attendees to promote integrity by "setting the tone at the top" and by seeking to fill leadership positions with only those who have "integrity in their gut."

While it isn't always easy to judge a leader's character, especially in the beginning, Mr. Krol listed a few telltale signs that may signal a serious lapse in judgment. These include a focus on short-term performance rather than long-term stability; a willingness to take shortcuts; leaders who start to believe their own press; and a sudden change in lifestyle.

On this last point, Mr. Krol elaborated on his early days at Tyco where he ascribed the previous leadership's downfall to operating in an air of arrogance. "As directors, we must look at how company leaders are behaving. Is the CEO talking to the organization about integrity and honesty? Or, is it just something written on a piece of paper, as it was at Enron? It might have looked good, but it didn't make any difference in that company."

In summarizing Mr. Krol's tenure at Tyco, Mr. Kenny remarked, "Jack did the right thing. He urged other people to do the right thing. It happened." Simple as it sounds, this just may be the most difficult and important model for any diligent director to follow.

DEFINING THE DIRECTOR'S ROLE

Shareholders, Regulators and Others Weigh In

Today's directors are looking for sure footing on shaky ground. "We've seen more changes in corporate governance over the last 36 months than we have in the past 36 years," noted John Castellani.

While directors continue to feel their way through it all, conference panelists shared thoughts on defining the new roles and prioritizing responsibilities.

Develop Understanding

Offering a legal perspective was E. Norman Veasey, former Chief Justice of the Delaware Supreme Court. "From reading depositions and opinions of the lower courts, I have come away with the notion that directors must take the time to develop

a real understanding of their organization. Directors must ask questions, become educated, seek other opinions about the business, its strategy and its competitive environment."

Chief Justice Veasey cited the federal cases of Worldcom and Enron. In both, he noted, the directors failed to understand what was going on inside the company. The burden of proof shifted to the directors to show due diligence and good faith.

This is something all directors should take stock of, but not panic about. "At the end of the day, the recent court decisions we've seen are not intended to curtail the business judgment rule or the entrepreneurial risk taking that the courts want from directors. If directors do a conscientious job of diligence and good faith and loyalty to the enterprise and have a complete understanding of what is going on, then they will be okay."

Listen. Act. Challenge. Support.

James D. Robinson, III, former CEO of American Express and now co-founder and General Partner of RRE Ventures, suggested to the group that "balance" is critical in defining the director's role today. "In the post-Enron world there's no question that the pendulum has swung too much," he said, speaking about cycles of regulation over the decades. "Directors have to remember that their number one responsibility, individually and collectively, is to help the CEO and management build the best company they can possibly build, under the framework of appropriate integrity and transparency."

His takeaway from watching headline corporate failures is that directors must always "listen, ask, challenge and support."

Ed Kangas, Chair of Tenet Healthcare, shared that company's turnaround efforts and outlined five steps directors should take to ensure sound board practices. Among them: make sure directors are involved and engaged in the business; use business processes to make decisions; make sure the majority of the board is independent; define the role of the lead director; and retain superior board counsel.

Chief Justice Veasey emphasized the new importance of the Nominating & Governance Committee. "That committee is the conscience of the board," he noted. While careful to point out that all three committees are equally central to making the whole system work, he defined two critical responsibilities of the Nominating & Governance Committee.

"If directors do a conscientious job of diligence and good faith and loyalty to the enterprise and have a complete understanding of what is going on, then they will be okay." – E. Norman Veasey, Former Chief Justice - Delaware Supreme Court

"First, it develops a systematic way of selecting the right team of directors. Second, in its governance role, it focuses on what the board should be doing to help the company with strategic planning and watching to make sure that things are done right."

Who Do We Represent?

In theory, directors are elected by shareholders and represent the shareholder interests. But is this the reality? The issue sparked some discussion among conference participants.

"When I read annual reports, they talk more about employees, customers and other stakeholders. It seems that shareholders' interests come last," stated one participant.

Panelists agreed that the question wasn't easy to answer. "You have to define the bottom line as broader than just the

shareholders," said Mr. Robinson.

Noted Mr. Kangas, "It's bigger than 'who do I represent?' We must ask a strategic question, 'Why does the enterprise exist?' Tenet Healthcare exists to provide quality hospital care. Therefore, I believe the primary constituency has to be the people who need those services. Within that context, if you look at what it takes to build long term, real value in this company, I don't believe there is a conflict."

From a legal perspective according to Delaware law, Chief Justice Veasey stated, "Directors are presumed to act independently in good faith and in the honest belief that what they're doing is in the best interest of the corporate entity. If it is in the corporation's best interest to serve the interests of employees, creditors and the community, then that is what the directors are supposed to do. And if it's in the best interest of the corporate entity, then it ought to be in the best interest of the stockholders."

Director Liability

One participant raised concern about a recent Delaware Court ruling that seemed to imply that some directors could be held to a higher liability standard in a court of law than other directors-specifically because of their level of "expertise" or corporate knowledge.

In revisiting the details of the case, which involved a company called Emerging Communications, Chief Justice Veasey explained, "There is some language in the opinion that has led many people to believe that the Delaware courts are now saying that if you're an expert and you're on the board of directors, you're held to a higher standard of liability." According to the Chief Justice, that is not the intent of opinion. "But in this given situation, the court did decide that a particular director could not have relied in good faith on the recommendation of the outside experts because, based on his personal expertise, he knew better."

"At the heart of it," concluded the Chief Justice, the law still says "directors shall be fully protected if they rely in good faith on the records of the company, the representations of the management, the committees that the director is not on, and outside experts."

A BALANCING ACT FOR AUDIT

The pressure to meet new and evolving regulatory demands from Sarbanes-Oxley (Sections 302 and 404 among them), the exchanges and FASB, is taking a toll on Audit Committees across the nation.

First, there is the issue of personal liability, which can be frightening, and is most likely a major deterrent, keeping qualified directors from serving. Second, there is the issue of time. Audit Committee members are expected to become experts in the business's operations and the financial intricacies involved. This expectation is compounded for directors serving on boards of companies with multinational operations, each with its own set of financial standards and practices.

Public expectations of Audit Committees have grown unreasonable, according to those in attendance. "Regulators and the business press expect financial statements to be precise and the disclosures to be complete, but that's never going to happen," declared one attendee.

Indeed, accounting models by nature are imprecise. "Financial statements are reasonable approximations, but they suffer from the illusion of exactitude," noted one director. Attendees agreed that mounting regulatory focus is driving everyone further

away from the "fundamentals of business," and not by choice.

There was a shared perception that the public expects the Audit Committee to be a shadow financial department and that it is considered the first and last line of defense. But, queried one participant, "How can we expect directors to detect a misapplication of complex accounting standards if it's been missed by management, the internal auditors *and* the external auditors?"

The directors concurred that the Audit Committee should provide reasonable oversight and challenge to financial management, and that it should be held responsible for systemic fraud. But single fraud is a different matter. "It's statistically impossible that, in any large enterprise, fraud will not occur somewhere, in an isolated way," noted one participant.

Considering that the Audit Committee faces significant issues of scale and location (the sheer size of the enterprise may prevent directors from physically visiting all areas) as well as complex regulations and time constraints, the participants considered several ways for the Committee to strike an acceptable balance.

- *Clarify the agenda.* Traditionally, the Audit Committee is charged with two key responsibilities: making sure the organization is operating in compliance with all financial regulations, and isolating and managing potential risk. But this year, it seems, too many companies spent too much time addressing issues of compliance, especially those outlined in SOX Section 404. This effort bore tremendous costs in terms of time and money. "It's as if people thought they could spend a lot of time up front and arrive at a destination," remarked one director. "Some think it's all over with. But I would suggest we've only seen the beginning."

- *Implement Enterprise Risk Management programs.* Compliance alone is a heavy responsibility, so the additional responsibility for risk management can seem daunting to directors. But equilibrium can be achieved, suggested the participants, with a well-articulated Enterprise Risk Management system. "This shouldn't require months of time," counseled one director. "Ask senior management to determine what the risks might be, what controls are in place to help mitigate those risks and then determine whether or not the residual risk is appropriate."

- *Retain the right financial team.* If the senior team does not know the inherent risks, said the directors, then it's time to reconsider your management team. Perhaps then, the first line of defense is to hire the right CFO, the right controller and the right auditor. "Surround yourself with professionals you can trust," said one participant "because you're only going to know what you get told."

- *Identify internal accounting control systems.* With added emphasis from SOX Section 404, the need for corporate controls is in the spotlight. Yet many directors may be surprised to find that some solid controls are already in place-just not attended to, if manual, or not turned on, if automated.

- *Foster relationships.* SOX Section 404 may have forever changed the relationship between the outside auditor and the Audit Committee. But this doesn't mean that committee members are the only ones who should be exposed to the information. Participants recommend that the audit partner present to the full board at least once a year.

- *Consider committee composition.* Directors say that it is important to have the right composition of people on the

Audit Committee. While you certainly want financial experts and those with operational or industry experience, there is additional value in having a few outsiders who are less familiar with the business operations and finance. "These are the people who will ask the questions that nobody else would ask," said one participant.

COMPENSATION STAKES NEW GROUND

The shift in responsibilities may seem incremental, but the challenge for Compensation Committee members to establish and implement new operational guidelines today is monumental.

Yes, they'll continue to advise the board about what and how to pay the CEO; but the traditional metrics for doing so are being scrutinized and criticized. They'll continue to work with the independent consultant; but they now have more responsibility for the propriety of that relationship. They'll still liaise with management; but this relationship is broadening as Human Resources emerges as a key strategic partner.

"The forumulaic approach to executive compensation troubles me. It's no replacement for having a group of directors that understands the business, understands the drivers of that business, and aligns the compensation package with them." – Robert J. "Kam" Kamerschen, Former CEO - ADVO, Inc.

Daniel Ryterband, a managing director for Fred W. Cook & Company, opened the session with an overview of working with compensation consultants, a relationship for which the Compensation Committee should now assume full control.

Directors rely on compensation consultants for two things: information and judgment. With regard to quality of information, the standard expectations are data and competitive practices, technical guidance on taxes and accounting and emerging best practices. But most importantly, look for a consultant who understands changes in historic practices.

This impacts the second benefit of hiring a consultant-judgment. "One of the most important problems I see in executive compensation is a reliance on historic practices-things done by other organizations as a justification for companies to take similar actions on their own, irrespective of whether those things make sense in their particular business context," said Mr. Ryterband.

In addition, he offered the following best practices:

- The board of directors, not management, should retain the consultant and be responsible for hiring and firing.
- The board should make sure the consultant and his/her firm does not have any other economic relationship with the organization.
- The board should provide the consultant with clear guidance.
- The board, through the Compensation Committee chair, should maintain open dialogue with the consultant at all times. This way, the consultant can be proactive and address the most difficult issues before getting to the meeting.

While there is no perfect answer when it comes to executive pay, session participants agreed that compensation plans today must be customized.

"The formulaic approach to executive compensation troubles me," admitted Robert J. "Kam" Kamerschen, lead director for R.H. Donnelley and currently the chairman of three other Compensation Committees. "It's no replacement for having a group of directors that understands the business, understands the drivers of that

business, and aligns the compensation package with them."

The widely accepted practice of making peer-group comparisons was pegged as a leading cause of inflated CEO salaries. "The problem is," noted one director, "that boards often aim for the 75th percentile-some peers make more, most make less. But the company isn't always performing at the 75th percentile of the group. You have to consider performance."

Selecting the right peer group, however, can prove challenging. "If you're a candle maker and compare yourself to another candle maker, you'll always make candles," suggested one participant. "As long as the size and structure are similar, look outside your own industry for comparison." Another urged caution with this approach. "You must be careful to compare against who you are, not who you want to be. That's how we end up with insane compensation levels."

After determining *how much* to pay, the Compensation Committee must then decide how to pay their executives-a topic that sparked considerable debate.

Stock options, for many years heralded as one of the best methods of financial reward, came under fire by some participants. "They had a very inappropriate incentive structure for senior executives," declared Mr. Ryterband. "Executives would earn big awards with significant growth in stock price, which would induce them to take all kinds of risks that were not always in the shareholders' best interests."

Not everyone agreed. "I think they are still an appropriate choice," stated one director. "But in the '90s they hit excesses. Today, it's more balanced." Stock options now must be expensed, providing a new level of visibility and accountability.

Directors were cautioned to expect some tension as traditional pay structures and reporting relationships change. In this new environment, where the consultant reports to the board, some CEOs will not be comfortable losing the power to control or influence their compensation. It is time, the directors said, for the Compensation Committee chair to be strong.

Another option: enlist the support of the Human Resources department. "The first thing I do is get to know Human Resources," explained Peter Clapman, Executive Director of the Pace Directors Institute. "It's a key partner for you." As a primary source of background information, HR provides much quantitative and qualitative information, and savvy directors should demand to have a qualified person in that role.

"We're not here simply to meet the standards of the NYSE or SOX and check off boxes on a list. The Governance Committee is the recognized conscience of the company. It is our job to ensure that the full board both supports and challenges management." – Warren L. Batts, former CEO - Tupperware Corp.

A GROWING SENSE OF GOVERNANCE

As corporate boards begin to absorb the impact of the new regulatory environment, there is a growing sense of governance-not just among directors, but throughout the entire corporate system.

"We're not here simply to meet the standards of the NYSE or SOX and check off boxes on a list," declared Warren L. Batts, a former CEO of Tupperware and a discussion leader. "The Governance Committee is the recognized conscience of the company. It is our job to ensure that the full board both supports and challenges management."

The first step in fulfilling this role is to recruit good directors. But the pool of

qualified candidates is shrinking. New regulations limit the number of boards active CEOs can serve on, and some directors are imposing limits on themselves due to time constraints and liability issues. Recent trends include mandatory retirements and term limits, both of which force valuable members off the board, sometimes prematurely.

To broaden the field, it was suggested that the Governance Committee take the lead and not insist on recruiting active CEOs.

Another suggestion: let the regulatory atmosphere "cool down," hopefully relieving the pressure on director liability.

Finding directors with the right skills poses another hurdle. Historically, high-profile CEOs were the candidates of choice. They brought with them experience and image value. Not long ago, everyone wanted that big "marquee" name.

"But I think we're growing up," interjected Mr. Kenny. "We're looking at the company's long-term strategy and trying to find the best match. We're asking, 'Whose experience and background will be the best fit and help us get where we want to go?'"

It's clear that the regulatory environment that merged the Governance and Nominating Committees has had a profound effect on the way directors now think and act.

"A major change occurs when we switch hats between nominating and governance," shared a director. "It's one thing to go out, research and nominate candidates, but it's another to say we picked these people because we are governing in this direction and they are a perfect fit."

One of the biggest decisions facing directors is whether or not to separate the roles of Chairman and CEO. Although U.S. regulations do not require it, many boards feel pressure from their shareholders, the business press, and international affiliates (where it is common business practice) to separate these two positions. Compounding the issue is the NYSE, which does not require separation, but does require that an independent director take a leadership role.

In the end, the participants agreed that the decision is situational. "Ultimately, we need to clearly define the roles and responsibilities of each position," suggested one participant. "In some companies it is possible for one person to perform both roles; in others, it is not."

The subject of selecting a lead or presiding director, if there is not a non-management Chair, raises its own set of issues. For one thing, the directors must select from amongst themselves one person to assume the lead, which may bruise egos, since directors have historically considered themselves "a group of equals."

Some boards make an attempt at "fairness" by rotating the lead director position, but this approach is considered a cop-out by some and ill advised by most. "A confident board is not afraid to select a leader," declared one participant.

"We're moving away from the collegial, clubby boards, anyway," noted another. "We're building boards with people who expect that there will be a lead director. They expect to make decisions, to be active and to take responsibility."

Session participants later turned to the topic of board evaluations.

The process by which board evaluations are conducted raised questions about confidentiality and usefulness. Questionnaires–which are considered standard–

seemed to fall short in their ability to provide meaningful feedback and candor. A more "progressive" approach may include a means for capturing individual director comments, which would provide "texture" behind the numbers, and third parties can help with that.

Directors supported a rigorous process. While the NYSE requires annual appraisal of the three independent committees, a full board evaluation is a good way to show responsibility to regulators, as well as shareholders.

The best way for directors to handle the wave of new governance principles and practices is to "never take anything directly from the book," advised Mr. Kenny. "You should read the book, but then adapt everything to your own set of circumstances."

DO THE RIGHT THING

How to Create an Ethical Culture

When it comes to corporate ethics, "establishing its importance to the company's success is the most important job that any board or management team has," declared Tyler Mathisen, a CNBC anchor and a discussion leader on ethics at the conference.

Creating a corporate culture that inspires people to achieve results with integrity is the responsibility of every board of directors, but the need is heightened in the wake of a major scandal.

Take, for instance, Mr. Mathisen's network, NBC, which suffered a setback in 1991 when its *Dateline* program was rebuked for airing a segment about faulty gas tanks on GM vehicles. *Dateline* did not disclose that a vehicle was rigged to explode on camera. Since then, Mr. Mathisen said, NBC follows a new set of practices "every single day that are among the best in the industry."

Likewise, Tyco International now has in place a robust and rigorous set of ethical safeguards, but the company's situation was dire back in 2002 when then-CEO Dennis Kozlowski and two of his top lieutenants were indicted for corporate fraud. The company's change in corporate culture now "starts with the tone at the top," explained Edward J. Breen, Jr., Tyco's current Chairman and CEO, and a guest panelist.

Mr. Breen introduced the four core values that form the foundation of "everything that happens" at Tyco: Integrity, Excellence, Teamwork and Accountability. To help move beyond the stigma of its past, Mr. Breen has ensured that Tyco is organized for accountability, with key management positions reporting directly to the board. The Senior Vice President of Corporate Governance, for example, reports to the lead director. The Vice President of Audit and the Ombudsman report to the Audit Committee. Mr. Breen said he and Tyco's leadership are working hard to "build a culture of compliance" at Tyco, which includes practical and real education on ethical leadership.

"Never take anything directly from the book. You should read the book, but then adapt everything to your own set of circumstances." – Roger M. Kenny, Managing Partner - Boardroom Consultants

"Every leader must create a culture where ethics, integrity and compliance are more important than making the numbers. And every follower owes his or her leader a duty of ethical behavior, integrity and candor," Mr. Breen said.

The discussion turned to hiring practices and the role of Human Resources. But some organizations are the size of "small cities," often hiring thousands of people at a time, so it can be difficult to screen for ethical considerations. Still, it must be done.

One solution proffered was to create an internal system that ferrets out the ethically challenged and rewards those with integrity. "I believe that when people see performance trumping ethics, it sends one kind of message," stated a director. "But when they see high performing people with ethical deficits being dismissed, it sends an incredibly powerful message."

Ken Daly, managing director of KPMG's Audit Committee Institute, raised the issue of business education. "Is there something missing in our educational system; something that Corporate America should be aware of?"

Several participants had recently spoken at universities and said business students seem greatly troubled by the current wave of ethical transgressions and the negative publicity around them.

Warren L. Batts, the Chairman of Methode Electronics, former Tupperware Chair and a guest panelist, said he believes that most young people graduating today are still "reasonably idealistic and ethically minded." He suggested that what happens in the first two or three years on the job is critical. "If their bosses are ethical, it will do a lot to establish an ethical tone at the company for the long-run."

Also troubling to the group is the evolving definition of what is ethical and what is not. "Forty years ago," recalled John H. Biggs, former Chairman & CEO of TIAA-CREF and an Executive-in-Residence at NYU's Stern School, "you were rewarded for being creative and clever [with earnings]. Now it's considered unethical and even illegal." Suggested another, "Perhaps it's how you go about it that makes the difference."

Although it is difficult to define "ethical behavior," Mr. Mathisen shared with the group his father's sage advice: "Just do the right thing. It's as simple and complicated as that."

THE DIRECTOR-MANAGEMENT RELATIONSHIP

Redefining Expectations

In the three years since Sarbanes-Oxley was signed into law, directors have busied themselves attending to regulatory details.

New charters have been written and new standards are in place. Now, many directors are eager to return to their primary tasks-strategic development, succession planning and performance.

However, the relationship between directors and top management is forever changed and both sides are treading lightly as they define their new roles and establish new boundaries.

It's clear that lines of communication are opening up. Some companies even provide directors with the home telephone numbers of key executives. And, the channels of communication are deeper. It is not uncommon for directors to spend a day alongside employees in a business unit.

But access to so much information and so many people poses its own potential danger by blurring the lines between management and oversight.

"Directors are working harder and longer and feel a need to get all the details," said Judith Richards Hope, a director at General Mills and a guest panelist. "Suddenly you have the board sliding closer and closer to a management function. It's very dangerous," she cautioned, "and it must be made crystal clear that directors are not managers."

In leading the discussion, Margaret M. "Peggy" Foran, Vice President of Corporate

Governance at Pfizer Inc., asked what management could do for directors to help manage time and the flow of information. Directors asked that management consider taking the following actions:

- Provide copies of presentations up to a week in advance of board meetings so directors have time to familiarize themselves with the information.
- Limit presentation detail. Directors can always ask for more information. Management should prioritize sharing the information that "keeps them awake at night."
- Limit the length of presentations to 3 or 4 summary slides and leave the remaining time for discussion.
- Frame the issues, in writing, and present the documentation to directors in advance. "Assume we've read the book before you get to the meeting and proceed from there."
- Assess the board's performance at the end of each year. "Let us know how we can be more helpful to you."

Participants also shared suggestions for how directors could help themselves manage the information overload:

- Invite business units to make presentations at different times during the year.
- Take the annual meeting on the road. Host it at a different division, unit or lab each time and invite the senior team from that group to join you.
- Have directors travel to business units throughout the year to get to know managers and learn how business divisions work.
- Independent directors should attend each other's committee meetings creating a "transfer of knowledge."
- Analyze each meeting. What did we get that was useful? What do we need more information on? What are our priorities? What can be pushed off?
- Conduct formal education so management and the board understand each other's roles better.

Ultimately, the directors said they are looking for opportunities to get to know the business-and the people running it-better.

Ms. Hope likened the CEO and the board to a conductor and the orchestra. "A strong board has a diverse range of talents, skills and expertise to offer. The CEO should be able to conduct the orchestra; to tap into our expertise at the right time, when it's needed. It's a complicated business we're running and each member has unique contributions to make."

While it will take some time for boards and management to make sense out of their "new reality" and grow comfortable in their new relationships, conference participants agreed that open forums such as these help clarify expectations and create shared understanding.

Institute Speakers

Warren L. Batts, Former CEO - Tupperware Corp. and Chair-Methode Electronics

John H. Biggs, Former CEO - TIAA-CREF

Edward D. Breen, Jr., Chairman & CEO - Tyco International Ltd.

John J. Castellani, President - Business Roundtable

Peter C. Clapman, Executive Director - Pace Directors Institute

James E. Copeland, Jr., Former CEO - Deloitte Touche Tohmatsu

Kenneth Daly, Partner - KPMG's Audit Committee Institute

Margaret M. Foran, VP Corporate Governance - Pfizer Inc.

Judith Richards Hope, Partner - Paul, Hastings, Janofsky & Walker

Robert J. Kamerschen, Former CEO - ADVO, Inc.

Edward A. Kangas, Former CEO - Deloitte Touche Tohmatsu and Chair - Tenet Healthcare

Roger M. Kenny, Managing Partner - Boardroom Consultants

Ellen R. Marram, Managing Director - North Castle Partners, LLC

Tyler Mathisen, Anchor - CNBC

Stephen P. Norman, Secretary and Corporate Governance Officer - American Express Co.

J. Thomas Presby, Former COO - Deloitte Touche Tohmatsu

James D. Robinson III, Chair & CEO - RRE Ventures and Former CEO - American Express Co.

Daniel J. Ryterband, Managing Director - Fred W. Cook & Co.

E. Norman Veasey, Former Chief Justice - Delaware Supreme Court

Robert E. Weissman, Former CEO - IMS Health Incorporated

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