

May 12, 2009 Session
Highlights of the Presentation
“The Nominating and Governance Committee”

The Nominating and Governance Committee: *Best Practices in Uncertain Economic Times*

At the May 2009 Boston breakfast meeting of the New England Chapter of the National Association of Corporate Directors (NACD), a panel of experts discussed best practices for board Nominating and Governance Committees. The panel consisted of Lloyd Campbell, Cynthia Feldmann and Robert Hallagan, with Theo Sharp serving as moderator. Campbell is a consultant with Spencer Stuart and leads the Governance Committee at Argyle Security and at Spartech; he also serves on the board of The Guardian Life Insurance Company of America. Feldmann is a board member of STERIS Corp., where she serves on the Audit Committee; she is also chair of the Audit Committee of Hayes Lemmerz International Inc. as well as a member of the Nominating & Governance Committee at that company, and she is a board member of Hanger Orthopedic Group, where she serves on the Technology and Quality Committee. Hallagan is vice chairman and managing director of Korn/Ferry International and cofounded The Center for Board Leadership; Hallagan is a director of ResCare, Inc. and Berkshire Life Insurance Co. Sharp is a managing director in the Boston office of Pearl Meyer & Partners.

Theo Sharp, Pearl Meyer & Partners

Sharp introduced the topic by noting that scrutiny of corporate governance has been going on for a long time and has been steadily increasing; recently, the financial market meltdown has focused discussion on risk. It's very important that boards focus on governance if they want to be competitive in capital markets, Sharp observed. Noting that “there's a lot of scrutiny,” in the area of governance and it is not going away, Sharp suggested four responses that companies can adopt:

- examine policies, processes and makeup of the board on an ongoing basis;
- enlist experts and advisors to understand how processes need to evolve;
- then execute – and don't just check the boxes;
- and then evaluate performance -- on a board, committee, individual and management level.

Lloyd Campbell, Spencer Stuart

To me, the Governance Committee is the most demanding and rewarding of the committees, Campbell observed. You have to make sure the right people are sitting at the table, Campbell noted, and he suggested annually overlaying the board members' capabilities with what the company needs. Then, he explained, you can identify gaps.

Campbell noted that you're now seeing fewer active CEOs and more retired ones serving on boards. In terms of board succession, Campbell pointed out that boards are on average older than they were about a decade ago, board members are on average serving shorter terms, and a mandatory retirement age is common. He noted that if you're talking with the CEO about CEO succession, it helps if you have some rigor regarding succession on the board.

Cynthia Feldmann

"In the boardroom, we have an enormous reservoir of talent," Feldmann observed. But, she added, we are not always taking advantage of that talent to the fullest. She discussed the topic of board orientation: What does a board member need to know? He or she, Feldmann indicated, should come to the first few meetings with some knowledge of a company's history and location, organization and management (for example, is the organization hierarchical or flat?), strategy, competition, governance, culture, compliance and accounting.

Boards, Feldmann noted, can get into a method of operation – a way of talking to each other and managing the meeting – and that rut can be unproductive over time. It takes purpose on the part of the Nominating and Governance Committee to get the board out of that rut, she indicated. Feldmann also raised the topic of training and board development; she noted that Governance Committees have an opportunity to step into the question of which board members need what training. For example, do one or two board members need education in international finance?

Feldmann said she is a "big fan" of board retreats – and also of boards spending time at company sites. Boards can do that at meetings, she noted, by having meetings at company plants rather than in large cities.

Robert Hallagan, Korn/Ferry

Ten or 15 years ago, when the topic of board evaluations came up, perhaps about 10% of companies did them – but now, the majority do, Hallagan observed. He raised the question of whether board evaluations actually work – or whether they've become another "checklist" activity that boards do.

According to Hallagan, a lot of boards have had absolutely no impact on company performance, and there's a second type of board that actually has a negative impact on performance. He said there's a third type of board that's developed: a compliance-type board that is very defensive. Such boards do add some value, Hallagan noted. But the last type of board, according to Hallagan, is a "strategic asset" and source of competitive

advantage for the company. Everything you do as a board, Hallagan explained, has to be aligned to driving shareholder value.

From the Question and Answer Session

Q. Is there a best practice for board member selection, as far as the interview process goes?

A. The process of identifying gaps and meeting people is ongoing, according to Campbell. He noted that one great question to have on your board evaluations is who would be a replacement for the current chairs of the Audit, Compensation and Governance Committees. He also suggested looking at the competition and who they have on their board. Hallagan discussed the importance of looking for people with documented success in a field that really adds value to the board.

Q. Can you discuss committee management and rotation?

A. Hallagan noted that, in terms of building the board, you have to keep in mind who is going to be leading key committees. It's very difficult to rotate committee membership, Campbell observed. One possible approach, he suggested, is having sequential committee meetings – so all board members can attend all committee meetings. However, that does add to the length of the directors' day.

For more information about the New England Chapter of NACD, please contact info@nacdne.org.

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