

NACD Event Highlights

June 14, 2011 Breakfast Event

Board Succession: The Who, What, When, Where and How's

Event Overview

What does a board see when it looks in the mirror?

- Seasoned executives with the right mix of backgrounds, perspectives, skills and incentives?
- Successful leaders who, although strong-willed and opinionated as individuals, respect differing viewpoints and perform as a team under pressure?
- Professionals who embody the principles of ethical business practice and keep the interests of shareholders first and foremost in their minds?

And if the board's reflected image is not of this high caliber, what can be done to fill the gaps?

Representing three different perspectives, the distinguished panelists at the NACD New England Chapter's June 14, 2011 Breakfast Event recommended steps to ensure optimum board composition and improve board performance, exploring with members and guests the latest issues in board succession planning, governance policy and performance evaluation.

Panelists

Introducing the panelists and kicking off the discussion was Nancy Hawthorne, lead director of Avid Technology and a member of the boards of THL Credit, Inc. and Metropolitan Series Fund., as well as a number of nonprofit organizations.

The panel brought a wealth of knowledge and experience, including a) large public company board service, b) shareholder advocacy on issues related to public policy, corporate social responsibility and values-based investing, c) service on boards of companies with significant venture capital, private equity or hedge fund ownership, and d) service on nonprofit boards.

George H. Billings is president of Billings & Co., a management consulting firm specializing in strategic and operating services in the communications and other high technology industries. He is a director of Avid Technology, where he is chair of the Audit Committee, member and former chair of the Nominating and Governance Committee, former member of the Search Committee and co-chair of the Strategy Committee. His past experience includes working with a number of venture-funded technology companies and U.S. and international regulatory authorities and legislative bodies.

Ann M. Fudge is former chairman and chief executive officer, Young & Rubicam Brands. She serves as a director of GE, Novartis AG and Unilever PLC. At GE, she serves on the Public Responsibilities Committee. She is chair of the U.S. Program Advisory Panel of the Gates Foundation, a trustee of the Rockefeller Foundation and vice chairman of the Board of Overseers of Harvard University. Prior to

joining Young & Rubicam she worked as a senior executive in a number of consumer companies including General Mills and General Foods.

Timothy Smith is senior vice president, director of ESG shareowner engagement at Walden Asset Management, a division of Boston Trust. He oversees shareholder advocacy and works with clients on issues of public policy and environmental and corporate social responsibility. Formerly executive director of the Interfaith Center on Corporate Responsibility, he serves on the Kimberly-Clark Sustainability Advisory Board, Exxon Mobil's External Citizenship Advisory Panel, and the general board of pension & health benefits of the United Methodist Church.

Panel Discussion Highlights

Moderator Nancy Hawthorne invited the panelists to begin the discussion by sharing their initial thoughts on the topic of board succession. George Billings talked about the challenges of anticipating and planning for macroeconomic change at the board level and then driving the necessary actions down through the organization. He emphasized the importance of having directors who combine a keen sense of events in the world outside the U.S. with experience in changing corporate culture.

Expanding on the theme of global experience on the board, Ann Fudge discussed differences she has observed in American versus European boards and commented that board composition at companies with worldwide operations should reflect a commensurate level of global diversity. She also emphasized the value of achieving board diversity with respect to gender and ethnicity, citing statistics demonstrating the gaps that persist in the representation of women, blacks and Hispanics on U.S. corporate boards today.

Tim Smith focused on the increasing demands of activist investors related to board diversity, corporate governance and transparency on issues like environmental sustainability, as well as the recent growth in shareholder resolutions in these areas. He observed that entrenched directors sometimes stand in the way of progress toward meeting these demands and proactively responding to shareholder resolutions.

Nancy Hawthorne then posed two questions to the panelists: 1) how should an individual director go about driving change on an "old school" board, and 2) do you believe that boards give enough thought to succession planning for directors themselves, as opposed to senior management succession planning?

Responding to the question of initiating change, Ann Fudge and George Billings agreed on the importance of taking the time for thorough preparation and asking tough questions aimed at clarifying the strategic problems that need to be solved. Tim Smith cited the value of mobilizing like-minded investors to engage with the board on strategic issues.

With respect to board succession planning, all three panelists gave Corporate America mixed reviews. George Billings observed that too many boards treat open director positions as slots to be filled at the last minute. Tim Smith cited examples of boards that have excellent plans and processes in this area, including Hewlett Packard, Intel and IBM. But he said that even the high-performing boards tend to do a

poor job telling shareholders about their succession planning process. Ann Fudge pointed to the release in April of *Bridging Board Gaps: Report of the Study Group on Corporate Boards*. One of these gaps, she said, is board self-renewal. In addition, she reminded the audience that succession planning also applies to the composition and leadership of board committees.

Questions and Answers

Three key themes emerged from the period of audience questions that served as the centerpiece of the event:

- Steps for initiating and driving corporate change;
- Policies and practices for board succession planning;
- Director evaluation and board performance improvement;
- Methods for enhancing board diversity and depth.

Corporate Change. The panelists focused on the use of third-party resources such as sell-side analyst research notes to demonstrate to the board that change is needed. Openness to direct input from corporate stakeholders, including shareholders, can also be an effective catalyst for change.

Succession Planning Policies and Practices. The panelists discussed the prevalence, pros and cons of various ways of influencing board composition over time. Among them are term limits for directors, including limits on the time a person can serve as board chair. Separation of the roles of chair and CEO was also discussed, as was the growing importance of the role of independent lead director.

Director Evaluation and Board Performance Improvement. There were numerous questions related to best practices in these areas. Various approaches to director self-evaluation were discussed in detail. The panelists also commented at length on steps for dealing with nonperforming directors and replacing sitting directors whose performance may be adequate, in order to add new skills and perspectives to the board. The panelists agreed that serving successfully as a director requires more than simply attending board meetings – it demands time spent in the field with employees, customers and suppliers.

Enhancing Board Diversity and Depth. The SEC's recently enacted requirement that annual proxy materials contain specific information about director qualifications indicates widespread concern about the alignment between directors' expertise and their companies' fast-changing business environments, according to the panelists. There was considerable discussion regarding ways to address the challenge of recruiting CEOs – and female CEOs, in particular – for board service, as well as the challenge of recruiting foreign nationals as directors of U.S. corporations.

Meeting Wrap-Up

NACD New England Chapter President Bill Earon closed the June 14th session by thanking chair Ellen Richstone and members of the chapter's Breakfast Series committee for an outstanding 2010-11 season of events, and by wishing everyone an enjoyable summer. The chapter's next breakfast event will be held in September.