

The official magazine of the
National Association of
Corporate Directors

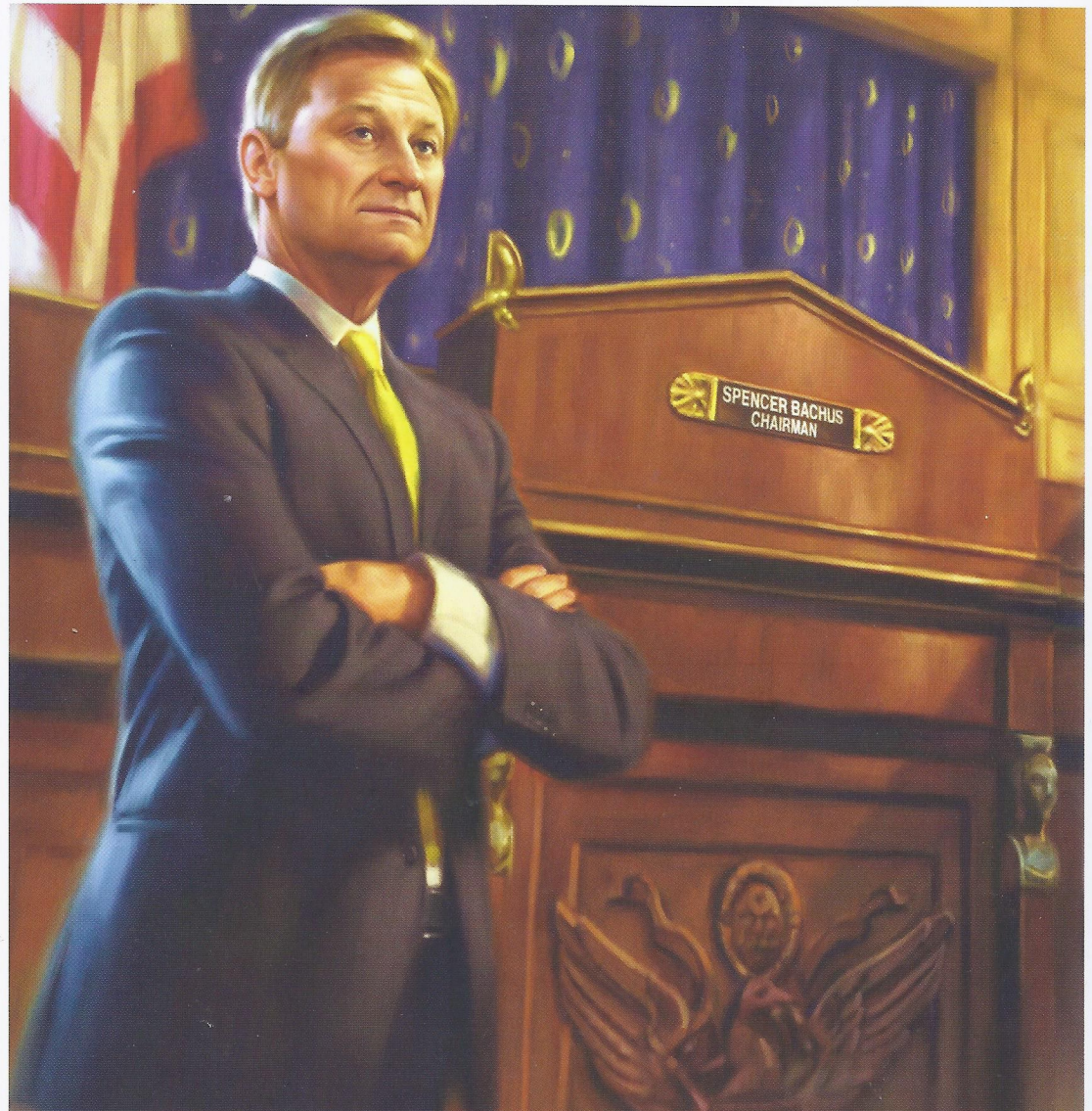
Complimentary to NACD members
\$395 for non-members

NACD Directorship

Boardroom Intelligence

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A New Chairman in Town

Congressman Spencer Bachus, the chair of the House Financial Services Committee, outlines to America's board directors his priorities for remedying Dodd-Frank. 20

Securing Your First Public Company Board Seat: Mission Possible

By Judy Warner

Michele Dunn, like many experienced executives, would welcome the chance to serve on a public company board. The problem is, no one has invited her yet. That's a gap that she, like many aspiring directors, want to close. As a business consultant, she has trained 10,000 mid-level managers at companies including Ford, PepsiCo and Merck. She has been a master instructor at GE's Crotonville Leadership Development Center since 1986. Her philosophy is that "culture can eat strategy for lunch." What she means by this is that the success of a company's strategic plan lives or dies in the corporate culture. And no matter how carefully governed a company is from the top, management should focus on culture in the middle, where she contends recent corporate tragedies like BP have occurred.

"I have a passion for great management. I want business to behave responsibly. I want corporations to be proud of themselves, what they do and how they do it. Boards need new perspectives and more people with different perspectives. I believe that my perspective is too often absent in the boardroom. I have a deep understanding of how the core of a corporation functions. And I believe if directors don't know what's happening in the middle of an organization, they don't really know what's happening at all." Directors, Dunn says, need to listen to the "melody of the middle" as much as employees listen to the "tone at the top."

Dunn currently serves on the board of Easter Seals in Connecticut where she lends her 30 years of experience to the non-profit sector. Even though she has not been a CEO, she understands their challenges because she has coached and trained generations of them. Though not a CPA, she has scrutinized balance sheets and assessed financial performance. And while not a lawyer, she has counseled managers who are confronting the immediacy of compliance issues in the field. Her profile is at present unconventional for nominating committees, but she is determined to find new avenues for her experience that lead to the boardroom.

To help Dunn prepare for her desired role as a director, *NACD Directorship* invited her to join a gathering of new and seasoned directors to share their experiences and discuss best practices for newly appointed board members. The ground rules for the

conversation that ensued were simple: we wanted the new or aspiring directors to ask their more seasoned counterparts how to get to the boardroom—and how to succeed there upon arrival. Questions around the table included: How did you land your first directorship? What questions should a new director ask of company management and fellow directors when first coming on board? What about culture? Pay? Finally, how will responsibilities match the value a candidate has to contribute?

Breaking In...With Class

How to get your first, second and third board seats? Network. Network. Network.

Directors come to board service in a variety of ways—and for a variety of reasons. The population of directors available for board seats can be pretty much divided into two camps: the C-suite executive who seeks personal development with an eye toward moving up to become chief executive or business executives looking to embark on a second career after a successful and rewarding first career.

Most directors and their professional advisors acknowledge that the first board seat is both the hardest to obtain and most important. According to Thomas J. Presby—who chairs the audit committees of five public-company boards—your first board seat helps establish your credibility and should play an important part in the expansion of your board network. Looking for a directorship should be approached with the same vigor and rigor as a job search. "It's a job, not a hobby," he says. Presby goes so far as to recommend writing to the chair of a nominating and governance committee stating your case for why that company board specifically aligns with your skills and experience.

Allen F. Freedman was named to his first public directorship in 1980 when a company he had invested in went public.

Short List Questions to Ask Yourself

- What value do I bring to this board?
- Do I fully understand my fiduciary duties?
- Do I have the courage to make tough decisions?
- Will I be candid, objective and independent?
- Will I hold myself accountable to shareholders?
- Will I be a strategic asset to the board?

SOURCE: NACD



Freedman remained on that board for more than 30 years, served on other boards and founded the Association of Audit Committee members.

A professional colleague recommended Lou Lipschitz to his first public-company board seat shortly after he retired from Toys “R” Us in 2004. Now the audit committee chair for The Children’s Place Retail Stores, New York & Co. and Majesco Entertainment Co., and the compensation committee chair for Forward Industries, Lipschitz was the CFO of the toy retailer as it grew from operating 300 stores with annual revenues of less than \$2 billion into a worldwide retailer with more than 1,600 stores and revenues of \$11 billion before he retired in 2004.

With more than 23 years of sales, marketing and operations experience at Kellogg, Alan F. Harris agreed to join the board of his first public company board shortly after retiring in 2007. Heidrick & Struggles was retained to lead the search for an independent director by Lancaster Colony, a Nasdaq-listed company that manufactures and distributes specialty foods, glassware and candles; Fulton was the partner in charge and aware of Harris’ relevant marketing, sales and operation experience along with his desire to serve. Harris, who now calls both North Carolina and South Africa home, says public-company board service gives him the opportunity to stay involved in business after nearly 30 years at Kellogg: “I am still fascinated and motivated by business, and you don’t simply switch into the off position when you retire.”

These directors, and others interviewed together and separately for this story, agreed that in addition to making yourself and your credentials known to professional recruiters, there is no substitute for networking. That runs the gamut from seeking out and attending board education opportunities, participating in governance-related conferences and forums,

and yes, agreeing to media interviews on subjects specific to your experience and knowledge that help raise and hone your profile. In an era where so much information is immediately accessible online, consider not just how you look on paper but what pops up when you Google your name. And make sure to drill down on any company whose board you seek to join by



Michele Dunn

checking it out in investor chat rooms and the blogosphere. Review annual reports, press releases and analyst reports. If they are unclear, confusing or incomplete, then ask questions. You have a reputation to protect.

Like a growing number of her board colleagues, Rita Foley describes herself as a professional director. A dedicated learner, she serves on the boards of PetSmart and Dresser-Rand and is chairman emeritus of Pro Mujer, a not-for-profit microfinance and health organization. Her first public-company board seat resulted from “a call out of the blue”

from a recruiter. When she retired from her full-time job and was looking for a second board seat, she customized letters and her resumé to recruiters emphasizing her strategic nature.

Increasing Selectivity

“Board candidates are more selective today,” says Thames Fulton, a partner at Heidrick & Struggles. “The risks are higher, so they want to join the right board. They ask about strategy and the management team. Will they have a voice and can they contribute? They want to build and drive something of value and work with people they respect and trust.”

One of the most challenging areas for the new director to investigate is board culture. “How will I know it will be a good fit?” asks Dunn.

“Talk to people,” advises Presby. “Meet with senior management and all the directors and ask them about the board and management dynamic. When you meet with senior management and the board, ask about their interaction—where is there tension—and what performance standards do they use. Be skeptical. What are the consequences of painful decisions or decisions that don’t work out as expected?”

Martin M. Coyne II, who serves as lead director for Akamai Technologies and is active in the New Jersey chapter of NACD, has written on CEO leadership and how CEOs can improve their relationships with boards. His view of any potential directorship, whether one he is considering for himself or when he is seeking a candidate for nomination, is to both question and be questioned: “We recently added a new director to a board and I while I was interviewing her, she was interviewing me.”

Fulton suggests meeting company management and other board members outside of their offices. “Choose different

venues for your meetings such as over lunch or dinner, where conversation can be more casual."

ON-BOARDING. Find out what the process is for "on-boarding" a new director. While asking questions, Lipschitz suggests reading carefully between the lines. Freedman, who chairs audit committees, recommends reading annual reports, including the footnotes, and current filings. Foley agrees. She says that it's typical for recruiters to provide prospective board members with a dossier on the company that usually includes some analysts' reports. "More than likely you will only be given positive analyst reports. Make sure that on your own, you seek out the potentially negative analyst reports." Also check out press releases, analyst reports on competitors and the company's ratings from the financial and governance ratings services. "Proxy statements and 10Ks are a good basis for developing questions. You'll be amazed at what you'll learn, especially if it doesn't seem to fit...if you read the 10K and it's not worth the paper it's printed on, then that's not a board you want to be on," says Coyne.

INDEPENDENCE. Prospective directors should also screen their board members for independence. Do they have pre-existing relationships through business or family? Does the board have a conflict-of-interest policy and do the independent directors determine the governance policy? Learning the answers to these questions can help a new director avoid problems down the road.

DUE DILIGENCE. As a precaution, check to see if there are SEC or other regulatory investigations and litigation. Ensure there is a climate of disclosure and transparency by reading the company filings. Ask for, or seek out on your own,

reports on internal controls and reporting systems and pay attention to Section 404 of the annual report that covers the scope of the internal control structure and procedures for financial reporting and AS5. Is there a code of conduct? Read it.

Avoid any company where directors are discouraged or not allowed to seek out direct reports to the CEOs. There is no replacement for getting out into the field, making personal visits to the company's facilities or branch offices and learning first hand from those who actually implement the company's strategy from

"Board candidates are more selective today. The risks are higher, so they want to join the right board...They want to build and drive something of value and work with people they respect and trust." —Thames Fulton

the bottom up. Explore for yourself what potential hazards may exist. "If the board only eats what management feeds them, it can be a very unbalanced diet," says Freedman. Presby recommends "dropping by" in between board meetings.

Characteristics of cultures that might signal what Presby calls "imprudent risks" include fear of the boss, stretch budgeting, executive committees of the board, a tolerance for sloppiness, short-term people committing to long-term plans and "bad tone at the top." While Dunn may not yet have her first public company board seat, her belief in the importance of understanding a company's culture is seconded by the most experienced directors. In a presentation Presby gave to a group of new directors at an NACD class in December, he

said: "People behave in accordance with 'how we do things around here.' Culture trumps systems, processes and analytical frameworks."

BOARD-CEO RELATIONS. With the expectation that directors be independent from management, the dynamic between the leader of a company and the board is as varied, and potentially volatile, as any group of individuals gathered around any one table. How you as a director exercise oversight of the chief executive—his or her compensation, succession and exit plans and everything in between—could reveal volumes about what really happens when the doors close on the boardroom. When meeting with the CEO, ask what performance standards are used. "Is death the penalty for missing the plan?" Presby asked, eliciting a few hardy and not-so-hardy chuckles.

Evaluate the CEO's own credentials as a director. "Ask if the CEO has ever been an outside director on another board," recommends Steven H. Rice, who until its buyout earlier this year by First Energy served on the Allegheny Energy board. "The CEO needs to understand what it's like to be an outside director."

Hard Work for the Money

Given the inherent personal risks and the high degree of intellect and skill necessary to be an effective board member, one wonders just how much of a factor compensation really is. Fulton says some candidates never bring it up. Others weigh what their personal costs will be. A directorship on an overseas board that holds monthly meetings may be a viable option for some and a deal breaker for others.

Directors' time is extremely valuable. "You should be comfortable that the level of compensation aligns with the amount

you are putting in,” Foley says, “but it should not be your motivation for joining a board.”

Adds Harris: “Most of the directors I know have sufficient income such that board compensation is unlikely to be the key factor in their decision to become a director. However, I think directors should be compensated for their time, effort and responsibility. I do believe it is part of the mix, just not a big one.”

Director compensation is not a first-order concern among well-qualified directors, Fulton contends. Candidates tend to look first at the culture, people and performance. Pay comes further down the list of considerations and then it is mainly just to confirm that the company is paying their directors at least market rate. “Paying

“Proxy statements and 10Ks are a good basis for developing questions...If you read the 10K and it’s not worth the paper it’s printed on, that’s not a board you want to be on.” —Martin M. Coyne II

below-market rates can be seen as a red flag,” he added. (*For more specifics on current trends in director pay, see the NACD Director Compensation Report: 2010-2011, page 42*).

Why Serve?

Dunn wonders whether any board is

ready for her particular business skill set. She is undaunted. In addition to her corporate work experience, she was widowed when her four children were near or entering their teen years. Now the youngest ones are in college and Dunn is determined to pursue a passion she first identified when she was in her mid-20s. “I always viewed the director’s job with reverence and respect, one that required knowledge, judgment and wisdom...qualities that I aspired to have,” she said. “Those qualities remain the same as do my aspirations.”

Says Presby: “This may sound a little strange, but the first thing I’d advise a new director is to join a second board. The transfer of knowledge and experience between multiple boards is of huge value.”

Directors Registry Now Exceeds 4,000 Listings

By Michael DuBois

Some say CEO succession planning is the single most important job for the board of directors, but what about succession planning for board members themselves? This is also imperative to the success of business development and strategy. In fact, in the 2010 NACD Public Company Governance Survey, respondents selected both CEO and director succession as top board priorities.

PricewaterhouseCoopers’ *Annual Corporate Directors Survey* found that 45 percent of directors feel there is a shortage of qualified candidates. Finding the right candidates can be time consuming and costly, but directors need not bear the burden of search alone. According to the NACD survey, nearly half of boards use a search firm to identify potential directors.

Regulatory activity in recent months has placed a greater impetus on finding the right director for your board. Following the SEC’s enhanced proxy disclosures and looming proxy access rules, investors will be paying much more attention to how each director’s skill sets contribute to the company’s strategy. In response to members’ requests, NACD created Directors Registry. Complementing the work of regional and sector-specific executive search firms, the Directors Registry

database now contains the profiles of more than 4,000 active and prospective directors.

NACD is currently working to connect with other foreign registries, to further identify and expand its pool of potential candidates with international experience.

How Directors Registry Works

A \$400-million publicly traded medical device manufacturer sought independent directors who were current or former CEOs, COOs, presidents and/or CFOs from for-profit companies with revenues over \$500 million. The board asked NACD to identify candidates with prior U.S. public board, international and industry-specific experience. A background in rapid growth situations was also desired. Within two weeks of initiating the search, NACD’s professional search team provided 12 candidates with the skills and expertise that matched the company’s needs. The company talked to seven of these candidates, and selected two for its board. The process took four months from the time the search was initiated.

Michael DuBois is NACD member benefits specialist.